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Aegis Group plc

# Aegis Group plc

## Report and Financial Statements

31 December 2012

# Aegis Group plc

**Directors**
Jerry Buhlmann
Nick Priday

**Company secretary**
Andrew Moberly

**Ultimate parent entity**
Dentsu Inc

**Registered office**
10 Triton Street
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Tel 020 7070 7700
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**Registered number**
1403668 England and Wales

**Auditors**
Ernst & Young LLP
London

**Solicitors**
Slaughter and May
One Bunhill Row
London EC1Y 8YY

Aegis Group plc

## DIRECTORS' REPORT

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2012

### Principal activity and review of the business

The principal activity of Aegis Group plc ("the Company" or "Aegis") is that of a holding company based in London Its subsidiaries and related companies within the Aegis Media division provide a broad range of services in the areas of media and digital communications, and Aztec companies operate a scan data services provision business

As shown in the Group's profit and loss account, the Group's revenue was £1,272 1m (2011 £1,135 0m), and operating profit was £60 6m (2011 £145 8m) Loss from continuing operations before tax was £(28 8)m (2011 profit of £106 4m) These results include Dentsu transaction costs Excluding these costs the Group's operating profit was £105 1m and profit from continuing operations before tax was £77 9m The subsidiary and associated undertakings principally affecting the profits or net assets of the Group in the year are listed in Note 16 to the parent company financial statements The Company has a branch in Luxembourg

In 2012, the Group delivered organic revenue growth of 7 4% (2011 9 9%), representing a strong performance in a challenging global economic environment Our 2012 performance is the result of continued delivery against our strategic focus on media and digital The momentum achieved during 2010 and 2011 continued in 2012 with our appointment as the global media strategic partner for General Motors Co , ("GM"), the most significant new business win in Aegis's history

Our strong performance in 2012 ensured that Aegis continued to produce a sector-leading exposure to media and digital, with digital contributing 38% of Aegis Media's revenue in 2012 (2011 35%) Aegis Media also delivered a further increase in revenue contribution from faster growing regions and North America, which together now generate 55% of Aegis Media's revenue (2011 50%)

The balance sheet shows a strong funding position, and net assets of £379 2m (2011 £462 7m) We ended the year comfortably within our financial covenants, with undrawn available credit facilities of £450 0m Cash inflows from operating activities during the year were primarily used to invest in new acquisitions, settle deferred acquisition payments and invest in capital assets

A final dividend of 2 01p per ordinary share for the year 2011 was paid to ordinary shareholders on 4 July 2012 Following the announcement of the offer for Aegis Group plc by Dentsu Inc on 12 July 2012, and the subsequent acceptance of the scheme by shareholders on 16 August 2012, no further dividends have been paid Further information on the offer from Dentsu is given below

### Operating review

Aegis Media EMEA revenue increased by 3 2% at reported rates and by 8 3% at constant currency to £651 1m, and delivered organic revenue growth of 2 6% Our businesses in the UK, Russia and Germany delivered particularly strong performances

Revenue produced by Aegis Media Americas increased by 31 1% at reported rates and by 33 6% at constant currency to £284 9m, and delivered organic revenue growth of 14 9% Our North American business continued to improve its market position, with the GM appointment a key highlight for Carat US

Aegis Media APAC revenue increased by 16 3% at reported rates and by 14 7% at constant currency to £256 6m, and delivered organic revenue growth of 12 1% Our businesses in Australia and China performed particularly well

Aztec produced revenue of £79 5 million, up 20 1% at reported rates, 19 4% in constant currency, with organic revenue growth of 9 3%, supported by a good performance from its business in Australia

In 2012, there was an increase in Group underlying headcount, excluding the addition of employees brought into the business via acquisition, of 11 8%, from the end of 2011

**Acquisitions made in 2012**

Aegis made a number of acquisitions and investments in 2012 In February 2012, the Group acquired the entire issued share capital of Roundarch Inc ("Roundarch") Initial consideration paid was £78 9m with deferred consideration of £100 2m

Other acquisitions include CatchStone and OMP in China, C2 in India, D2D and iSpy in the UK, W Garden in France and Netsociety in Netherlands and Belgium These acquisitions have increased our presence in our target geographies and enhanced the breadth of our digital offering, in line with our acquisition strategy

**Dentsu Inc's cash offer for Aegis Group plc**

On 12 July 2012 the boards of Aegis and Dentsu Inc ("Dentsu") announced that they had reached agreement on the terms of a recommended cash acquisition by Dentsu of the entire issued and to be issued ordinary share capital of Aegis for 240p per share, valuing Aegis at approximately £3,164 million The price offered by Dentsu was on the basis that Aegis shareholders would not receive any further dividends

On 16 August 2012 shareholders voted to approve the acquisition, which was implemented on 26 March 2013 by way of a court-sanctioned scheme of arrangement of Aegis under Part 26 of the Companies Act 2006, following receipt of antitrust clearances in certain jurisdictions

**Financial instruments**

Information about the use of financial instruments by the Company and its subsidiaries is given in Note 20 to the financial statements and in the Principal Risks and Uncertainties section below

**Post-balance sheet events**

The directors are not aware of any significant post-balance sheet events that require disclosure in the financial statements other than those disclosed in Note 34 to the financial statements

**Donations**

The Group made charitable donations of £1m during the year (2011 £1 1m) No political donations were made during the year

**Supplier payment policy**

The Company does not impose a formal code of payment practice on its subsidiaries However, the Group's policy is to try to create relationships with its suppliers such that they trust us and want to do business with us In selecting external suppliers we use competitive processes that are fair and transparent, and designed to maximise value and quality of service for our clients and ourselves

At 31 December 2012, the Group had 39 days' purchases outstanding (2011 42 days) The creditor day analysis is not applicable to the holding company

Aegis Group plc

## Directors

The directors in office during the year were as follows
John Napier, non-executive Chairman (resigned 26 March 2013)
Jerry Buhlmann, Chief Executive Officer, Aegis Group plc and Aegis Media
Harold Mitchell, Executive Chairman, Aegis Media Pacific (resigned 26 March 2013)
Nick Priday, Chief Financial Officer, Aegis Group plc and Aegis Media
John Brady, non-executive (resigned 26 March 2013)
Simon Laffin, non-executive (resigned 26 March 2013)
Martin Read, non-executive (resigned 26 March 2013)
Charles Strauss, non-executive (resigned 26 March 2013)
Lorraine Trainer, non-executive (resigned 26 March 2013)

There were no changes to the Board during the year 2012

## Directors' indemnities

A qualifying third party indemnity ("QTPI"), as permitted by the Articles of Association and sections 232 and 234 of the Companies Act 2006, has been granted by the Company to each of its directors Under the QTPIs the Company undertakes to indemnify each director against liability to third parties (excluding criminal and regulatory penalties) and to pay directors' costs as incurred, provided that they are reimbursed to the Company if the director is convicted or, in an action that is brought by the Company, judgement is given against the director Directors resigning from the Board continue to have the benefit of the QTPI for potential liability to third parties that occurred prior to their resignation

## Substantial shareholdings

| | As at 31 December 2012 | |
|---|---|---|
| Shareholder | Number of shares | % |
| Dentsu Inc | 234,571,301 | 19 99 |
| Mr Vincent Bolloré | 75,348,626 | 6 42 |
| UBS | 97,598,098 | 8 32 |
| Morgan Stanley | 70,739,707 | 6 03 |
| Deutsche Bank | 64,273,362 * | 5 48 |
| BlackRock | 57,726,733 | 4 92 |
| Magnetar Financial | 50,509,671 * | 4 307 |
| Mitchell family | 46,585,606 | 3 97 |
| Standard Life | 39,495,036** | 3 37 |

* includes interests in £190,600,000 2 50 per cent convertible bonds due April 2015 issued by Aegis Group Capital (Jersey) Limited and convertible into Aegis Group plc ordinary shares of 5 5p each
** based on notifications made prior to, and then adjusted for, the 10 for 11 share consolidation effected in October 2011

**Share capital**

Details of the authorised and issued share capital at the end of the year, together with details of movements in the Company's issued share capital during the year are shown in Note 23 to the financial statements

At the end of the year the Company had one class of share capital divided into ordinary shares of 5 5p each and carrying no right to fixed income Each ordinary share carried the right to one vote at general meetings of the Company

Except as stated below, at the end of the year there were no specific restrictions on the size of a shareholding or the transfer of shares or voting rights, which were governed by the general provisions of the Articles of Association and prevailing legislation On 12 July 2012 certain directors entered into irrevocable undertakings with Dentsu Inc restricting their freedom to dispose of Aegis Group plc shares Similar undertakings were entered into by a company in the Bollore Group The directors are not aware that there were, as at the end of the year, any other agreements between shareholders that may have resulted in restrictions on the transfer of shares or on voting rights

At the end of the year no person had any special rights of control over the Company's share capital and all issued shares were fully paid Dentsu Inc acquired control of the Company on 26 March 2013

At the end of the year the directors had authority to allot unissued shares in the Company up to a maximum nominal amount of £21,494,152 No shares have been issued or allotted during the year under the authority held by the directors, save for shares issued to satisfy existing obligations, including the exercise of share options This authority is valid until the date of the forthcoming Annual General Meeting at which time a resolution may be proposed to renew the authority

The Company has not purchased, or created any charges over, its own shares in the year ended 31 December 2012 The Company has not had the authority to allot shares without regard to the pre-emption provisions of the Companies Acts, or to purchase its own shares, since the 2008 Annual General Meeting

**Appointment and replacement of directors**

With regard to the appointment of directors the Company is governed by its Articles of Association, the Companies Acts and related legislation During the year it was also subject to the UK Corporate Governance Code

The Company is required to have no fewer than two and no more than 16 directors Directors may be appointed by the Company by ordinary resolution or by a resolution of the Board A director appointed by the Board holds office until the following annual general meeting but is then eligible for re-appointment

The Articles of Association provide that, at every annual general meeting, any director who held office at the time of the two preceding annual general meetings and who did not retire at either of them must retire and may offer himself for re-election In addition, any director who has been in office, other than as a director holding an executive position, for a continuous period of nine years or more at the date of the meeting must also retire and may offer himself for re-election At the annual general meeting at which a director retires, shareholders can pass an ordinary resolution to re-elect the director or to elect some other eligible person in his place

The only people who can be elected as directors at an annual general meeting are (i) directors retiring at the meeting, (ii) anyone recommended by the directors, and (iii) anyone nominated by a shareholder The nominating shareholder must be entitled to vote at the meeting He must deliver to the Company a letter stating that he intends to nominate another person for election and the written consent of that person to be elected These documents must be delivered to the Company not less than seven and not more than 42 days before the day of the meeting

The Company may by special resolution remove any director before the expiration of his term of office A director automatically stops being a director if (i) he resigns, (ii) he offers to resign and the Company accepts his offer, (iii) all of the other directors (being at least three in number) pass a resolution or sign a written notice requiring his resignation, (iv) he is or has been suffering from mental or physical ill health and the directors pass a resolution removing him from office, (v) he is absent without the permission of the Board for a continuous period of six months and the directors pass a resolution removing him from office, (vi) he becomes bankrupt or makes a composition with his creditors generally, (vii) he is prohibited by law from being a director, or (viii) he ceases to be a director under legislation or is removed pursuant to the Articles

### Significant agreements

The significant agreements described below, to which the Company was a party at the end of the year, contain provisions entitling the counterparties to, or the holders of notes or bonds issued pursuant to, those agreements to exercise termination or other rights in the event of a change of control of the Company As disclosed in Note 10 to the financial statements, Dentsu Inc acquired control of the Company on 26 March 2013 and, as a result, it is anticipated that the Notes (as defined below) will be prepaid and that the Convertible Bonds (as defined below) will be redeemed By agreement with the parties concerned, the prepayment rights contained in the Multicurrency Credit Facility and the RBS Facility (as defined below) have been waived in the context of the Dentsu acquisition and both facilities remain in place

- £450,000,000 multicurrency credit facility agreement dated 26 July 2010 between, amongst others, the Company, The Royal Bank of Scotland plc (as agent) and the financial institutions named therein as banks (the "Multicurrency Credit Facility")

  On a change of control of the Company, unless the Majority Banks (as defined therein) otherwise agree, all loans, letters of credit and guarantees, together with all accrued interest and other sums payable under the agreement, must be prepaid and, upon such prepayment being made, the total commitments of the banks under the Multicurrency Credit Facility will be cancelled and reduced to zero

- £60,000,000 facility agreement dated 20 June 2011 between a wholly owned subsidiary of the Company and The Royal Bank of Scotland group, guaranteed by the Company (the "RBS Facility")

  On a change of control of the Company the lender has the ability to require prepayment of any amount outstanding under the RBS Facility, whereupon the Facility will be cancelled

- Note purchase agreements dated 28 July 2005, 17 September 2007 (as amended) and 17 December 2009 (the "Note Purchase Agreements") pursuant to which notes amounting in aggregate to US$342,000,000 (the "2005 Notes"), US$125,000,000 (the "2007 Notes") and US$183,000,000 and £25,000,000 (the "2009 Notes", together with the 2005 Notes and the 2007 Notes, the "Notes") respectively were issued by the Company A tranche of the 2005 Notes amounting to US$159,000,000 was repaid in July 2012

  Each holder of Notes has an option, on a change of control of the Company, to require the Company to prepay the entire principal amount of the Notes held by that holder together with interest accrued thereon and the Make-Whole Amount (as defined in each of the Note Purchase Agreements)

- Pursuant to a subscription agreement dated 18 March 2010 between, amongst others, Aegis Group Capital (Jersey) Limited as issuer (the "Issuer"), the Company as guarantor and the financial institutions named therein as managers and pursuant to a trust deed dated 20 April 2010 between the Issuer as issuer, the Company as guarantor and Citicorp Trustee Company Limited as trustee, the Issuer issued £190,600,000 2 50% guaranteed convertible bonds due 2015 (the "Convertible Bonds")

  On a change of control of the Company the holder of each Convertible Bond will have the right to require the Issuer to redeem the Convertible Bond at its principal amount together with accrued unpaid interest

### Corporate social responsibility

The Company operates an active corporate social responsibility programme across the Group, which monitors the impact of our business on the environment and engages with employees on social and community issues

### Employment policies

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

### Human rights, diversity and disability

The Group has a series of human resources policies that require its employees to act respectfully and responsibly at all times These policies include policies on human rights, diversity and disability

We are committed to treating each employee and applicant fairly and equitably Employment decisions are based on merit, experience and potential, without regard to race, nationality, sex, marital status, age, religion or sexual orientation We are committed to following the applicable labour and employment laws in all of the jurisdictions in which we operate

We believe that disabled people have the same rights as anyone else to become, and continue to be, employees of the Group Wherever possible, we provide the same opportunities for disabled people as for others If any of our employees become disabled we make every effort to keep them in the Group's employment, with appropriate training where necessary

### Employee involvement

We have employee consultation processes throughout our business in accordance with local laws In addition, we update all of our employees on a regular basis with Group developments and progress through newsletters, internal publications, senior management notes and face-to-face meetings

### Auditors

Ernst & Young LLP, who were appointed as auditors in June 2011, have expressed their willingness to continue in office as auditors and resolutions to appoint Ernst & Young LLP as auditors to the Company and to authorise the directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting

Aegis Group plc

# Principal risks and uncertainties

## Risk management approach

Aegis recognises the importance of effective risk management processes and systems The Board is ultimately responsible for risk management and determining the nature and extent of the risks it is willing to take in achieving its strategic objectives It delegates operational risk management to its Risk Committees, which report into the Group Audit Committee There are currently two Risk Committees, the Aegis Media Risk Committee, chaired by the Group CEO, which focuses primarily on strategic and trading risks, and the Group Risk Committee, chaired by the Group CFO, which focuses on corporate and group function risks The work of the Risk Committees was regularly reviewed by the Audit Committee during 2012

Our risk management strategy supports the strategic objectives of Aegis Group plc, which are

- Increasing our exposure to faster-growing regions,
- Growing our digital profile and capability,
- Broadening our service offering across all of our clients,
- Growing our international client and new business profile, and
- Strengthening our leading position in the top 20 markets, in particular China and the US

This strategy aims to deliver continued growth whilst managing strategic risk by diversifying client base, country and media To back this, the group maintains a strong, flexible balance sheet and ensures we remain comfortably within our financial covenants A summary of our principal risks is as follows

### 1 Maintaining strong client relationships

*Risk description*

- We might lose key clients and fail to win new ones

*Potential risk impact*

- Lost profit
- Subsequent loss of key managers

*Risk management strategy*

- Ensuring we remain a highly competitive organisation to help us win new clients and continue to provide a high quality service to our existing clients

*Risk mitigation actions*

- We have dedicated client relationship teams in place, as well as global client management teams established in regional offices
- We develop multiple services, with an emphasis on innovation for our clients

### 2 Managing counterparty risk

*Risk description*

- Counterparty risks include the loss of income from clients who have cash flow or insolvency problems and potential media buying liabilities in markets where we act as principal

*Potential risk impact*

- Lost profit and bad debt

*Risk management strategy*

- Maintaining and developing robust financial and operating systems to ensure we minimise any potential loss of income from third parties

*Risk mitigation actions*

- Due diligence, including credit risk is undertaken for all new clients and written contracts must be in place before starting any significant work
- Group policy requires credit limits to be imposed for all new commercial clients
- We are enhancing our existing global credit insurance policy

### 3 Managing competitive risk

*Risk description*

- The agency sector is highly competitive

*Potential risk impact*

- Lost profit
- Subsequent loss of key managers

*Risk management strategy*

- Attracting and retaining high quality people who can deliver high quality service to clients Aegis Media's global network brands operate through one P&L and one operating model per country with a full range of integrated, and specialist, services, providing competitive differentiation

*Risk mitigation actions*

- We put major focus on maintaining and building long term client relationships, investing in major clients
- We seek to maintain a cost base at least as efficient as any of our competitors
- We place emphasis on innovation

### 4 Ensuring strong talent management

*Risk description*

- Loss of key employees and failure to attract high quality people

*Potential risk impact*

- Losing clients

*Risk management strategy*

- Talent management is a key priority to ensure we have a strong pipeline of people to develop as our future leaders We also aim to ensure we are well placed to continue to attract high quality people

*Risk mitigation actions*

- We made significant investment in 2011 and 2012 to make Aegis an attractive place to work
- We make developing our future leaders by career planning and training a priority In particular our Route 500 is a programme for high-potential employees

### 5 Weak economic conditions

*Risk description*

- Weak economies can lead clients to cut back on media investment and squeeze margins

*Potential risk impact*

- Lost profit

*Risk management strategy*

- Aegis is a diversified business with a strategy to grow our exposure to areas that are less likely to be affected by macro-economic challenges, including faster-growing geographic regions and digital

*Risk mitigation actions*

- Diversify our business into faster-growing product areas and markets
- Regular monthly detailed reporting by business units to senior management ensures that senior executives understand local performance
- There are regular reforecasts of financial performance presented to the Board
- Were sales to slow, controls over costs and working capital would be tightened further to mitigate the loss of profit

### 6 Maintaining a sound financial position

*Risk description*

- Insufficient liquidity and funding requirements to support the Group's liabilities and manage the growth of the business

*Potential risk impact*

- Lack of funds for current operations and future growth

*Risk management strategy*

- Maintaining sufficient funding, with secure access to banking facilities, to meet our liabilities and to fund the growth of the business From a cost perspective, ensuring a cost management culture is integrated throughout the organisation

*Risk mitigation actions*

- We have cash pooling arrangements in place for larger businesses with relationship banks
- We maintain daily cash reporting for all operations
- We have minimum headroom limits and monitor these regularly
- We maintain regular communication with relationship banks and noteholders

### 7 Managing the targeting and pursuit of acquisition opportunities

*Risk description*

- Acquisitions need to be value creating and support the Group strategy

*Potential risk impact*

- Loss of profit
- Management distraction

*Risk management strategy*

- Targeting acquisitions which are aligned with the Group's strategy and culture, as well as ensuring they meet specific financial criteria

*Risk mitigation actions*

- We maintain a pipeline of potential targets across a diverse range of geographies and product offerings
- All acquisitions require approval by an internal acquisitions committee chaired by the Group CEO Larger acquisitions have to be agreed by the Group Board
- We aim to limit the initial consideration and pay the consideration over time through earn-out payment structures
- There is a Group M&A team in place to support local management in sourcing and acquiring targets
- Acquisitions need to promise to deliver a rate of return of at least 30% above our weighted average cost of capital and need to achieve earnings enhancement in the first full year of ownership

### 8 Ensuring acquisitions are fully integrated

*Risk description*

- Unsuccessful integration of acquired companies

*Potential risk impact*

- Loss of profit
- Management distraction

*Risk management strategy*

- Post acquisition integration plans in place for all newly acquired entities to ensure they are properly integrated into the Group

*Risk mitigation actions*

- We track and report on the integration process tracked at three months and one year, providing additional assistance to those entities requiring more support
- We aim to re-brand acquired businesses in the first full year of ownership

## 9 Managing the security of data

*Risk description*

- Unauthorised access to, or inappropriate use of client, employee or other confidential data

*Potential risk impact*

- Lost profit
- Reputational damage

*Risk management strategy*

- Ensuring robust IT and financial reporting systems in place, in line with best practice data security and compliance regulations, and based on strict internal policies and procedures

*Risk mitigation actions*

- External access to information is protected by the IT security framework which is regularly assessed through vulnerability testing and IT security audits
- We insist on confidentiality clauses in employee and supplier contracts
- We are currently obtaining further validation of the quality of our information security by undertaking ISO27001 certification for our key businesses

## 10 Ensuring legal and regulatory compliance

*Risk description*

- The Group may be unprepared for legislative and regulatory changes

*Potential risk impact*

- Lost profit
- Loss of license to operate and/or market
- Damage to management reputation and credibility

*Risk management strategy*

- Ensuring compliance with a range of legal and contractual requirements around the world

*Risk mitigation actions*

- Group Legal team continually monitors changes in regulation with a view to changing group policies and communicating the changes before they come into force This team includes a specialist compliance lawyer
- Online compliance training packages have been developed to supplement face-to-face training
- We have established a regulatory intranet which is utilised as a tracking tool for new and updated regulation and an internal newsletter which updates employees on developments in the area of compliance

11 Managing corporate responsibility risks

*Risk description*

- The Group is unable to respond to the changing regulatory environment around environmental and community responsibility, unable to meet its clients' and employees' sustainability requirements or unable to fulfil stakeholder expectations

*Potential risk impact*

- Lost profit, clients and potential reputational damage

*Risk management strategy*

- Integrating Corporate Responsibility considerations in Group policies and procedures and developing ambitious targets and programmes to turn Corporate Responsibility risks into opportunities

*Risk mitigation actions*

- Appointment of a central Corporate Responsibility department
- Development of a network of Corporate Responsibility champions in each market to ensure local compliance through standardised reporting, to develop local action plans to achieve our targets, and to raise awareness

## Directors' confirmation

Each of the directors at the date of approval of this report confirms that

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware
- the director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006

## Going concern

The Group's business activities, together with factors likely to affect its future development, performance and financial position and commentary on the Group's financial results, its cash flows, liquidity requirements and borrowing facilities are set out in the Directors' Report and in the accompanying Financial Statements

The Board is satisfied that the Group balance sheet remains strong The Group remains well-financed with considerable cash and covenant headroom following successful fund raising in recent years A tranche of the 2005 Notes amounting to US$159,000,000 was repaid in July 2012, funded by the Group's own cash resources The Group has sufficient liquidity to meet the obligations arising from the Dentsu transaction

During 2012 the Group has continued to generate positive operating cash inflows from operations before tax, acquisitions and capital expenditure

The main factors contributing to these cash inflows are the retention and growth of the customer base, terms of trade with customers and suppliers and the continuing management of working capital within the Group The Board has concluded that the Group's forecasts and projections, taking account of reasonably possible changes in trading performance, indicate that the Group has sufficient funding to operate within the terms of its available facilities

The Board has considered various alternative operating and funding strategies should these be necessary and is satisfied that a range of actions including cost reduction activities could be adopted if and when necessary

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After making these enquiries, the Board is satisfied that the Group has sufficient resources to continue in operational existence for the foreseeable future and for this reason the going concern basis continues to be adopted in preparing the financial statements for 2012 Furthermore, no material uncertainties related to events or conditions that may cast a significant doubt about the ability of the Group to continue as a going concern have been identified by the directors

By order of the Board

Andrew Moberly
Company Secretary
27 March 2013

Aegis Group plc

## Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for the period

In preparing the parent company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently
- make judgments and accounting estimates that are reasonable and prudent
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

In preparing the Group financial statements, International Accounting Standard 1 requires that directors

- properly select and apply accounting policies
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance
- make an assessment of the Company's ability to continue as a going concern

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Aegis Group plc

**Responsibility statement**

We confirm that to the best of our knowledge

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
- the Directors' report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

By order of the Board

| | |
|---|---|
| **Jerry Buhlmann** | **Nick Priday** |
| Chief Executive Officer | Chief Financial Officer |

27 March 2013

Aegis Group plc

## REMUNERATION REPORT

The following report on the operation of the Remuneration Committee during the year and remuneration-related matters has been approved by the Board for submission to the shareholders at the 2013 Annual General Meeting Ernst & Young has audited the following items stipulated in law for their review

- The table of directors' remuneration and associated footnotes
- The tables of directors' share options and share awards and associated footnotes

The Remuneration Committee was chaired by Lorraine Trainer throughout the year The other two members of the Committee were John Brady and John Napier All three members of the Remuneration Committee resigned on 26 March 2013

During the year, the Committee obtained ad-hoc advice on executive remuneration matters from independent remuneration consultants, Deloitte LLP These services comprised a market review into reward arrangements for the executive directors in the PSP TSR peer group and advice in relation to aspects of the Dentsu acquisition In 2011 the Company's auditors were changed from Deloitte to Ernst & Young and as a result the potential conflict between remuneration and audit services in previous years has been removed The Committee also received advice where appropriate from the director of group human resources and the company secretary No individual is involved in decisions relating to their own remuneration

### Remuneration policy during the year

The Group aims to balance the need to attract, motivate and retain high calibre talent with the need to be cost effective, reward exceptional performance and create shareholder value The Committee reviews remuneration strategies and policies to balance these factors whilst also taking into account general macro-economic conditions impacting the Group, changes in business strategy, investor expectations and the wider compensation context of employees across the Group

In 2010 the design of the annual cash bonus scheme was significantly changed to incorporate more demanding annual and year-on-year performance measures, enhanced controls to ensure equitable incremental profit share between management and shareholders, greater transparency to incentivise performance, and linkage of the share schemes to the annual bonus arrangements for senior managers 2012 saw the continuation of these schemes as the high performance culture was embedded in the company

The Committee reviews base salaries in the context of total remuneration and determines remuneration levels to be aligned with relevant market practice plus the experience, performance and retention value of the individual It also assesses the ratio of fixed and performance-based remuneration with a view to strengthening the link between remuneration and performance, the mix of short and long term reward and the level of challenge of financial targets so that the higher levels of reward are focused on the high performing individuals

### Elements of remuneration

Details on remuneration for each of the executive directors are included below, together with some commentary on the three principal remuneration elements

Harold Mitchell's remuneration arrangement was specific to his circumstances It was confined to base salary only As agreed in his contract he did not participate in the Group's short or long-term incentive schemes

*Base salary and benefits*

Base salary and benefits are reviewed annually with reference to relevant market trends, the Company's financial performance and the individual's skill, experience and performance in order to provide a market competitive reward

In 2012 the annual review cycle for employee salaries and benefits continued in July and it is expected that the same timetable will be maintained for 2013 It is intended that salary changes for executive directors and senior managers will continue to be determined with respect to the general salary considerations of the whole Group and be informed by market changes

External data for executive salary increases in 2012 suggests an average uplift of 1 5-4% (excluding significant changes in responsibility) The executive directors' salaries had an average increase of 3% The Group's senior leaders received an average increase of 4% (excluding significant changes in responsibility), compared to a 3 3% increase (excluding significant changes in responsibility) for employees

A summary of the benefits payable to executive directors in 2012 is given below These mainly comprise company car benefits or related allowances, pension arrangements and medical insurance benefits, to which directors are entitled pursuant to the terms of their service agreements with the Company

*Short term annual cash bonus incentives*

Executive directors are provided with an annual cash bonus opportunity to incentivise and reward performance against financial growth targets A market review was conducted into the reward arrangements of the executive directors in relation to their counterparts in the PSP TSR peer group The reward review identified that the maximum bonus opportunity at Aegis was low and it was raised in 2012 to 150% of salary in order to remain market competitive

The design of the scheme was maintained in 2011 to ensure continuing alignment of management and shareholders' interests, with key performance targets being determined on an individual basis to relate to absolute increases in operating profit growth and improvements in operating margins In 2012 it was agreed that bonuses for the executive directors would be based purely on increases in operating profit

*Long-term share-based incentives*

The Committee kept the Group's long term incentive plan under regular review to ensure it remains appropriate in fulfilling its objectives and that the performance conditions continue to represent the best way to drive the creation of shareholder value

In 2012 the Group continued to use the 2003 Performance Share Plan (PSP) The PSP is designed to comply with the requirements of institutional guidelines and corporate governance best practice, as well as to reflect the Committee's remuneration policy In any financial year, an executive is eligible to receive a conditional award of shares with a face value of no more than two times basic salary in normal circumstances The Remuneration Committee has the discretion to approve an award of three times salary in special circumstances

As in previous years, the performance conditions applicable to the 2012 PSP awards continued to be determined in equal parts by reference to the Company's Total Shareholder Return ("TSR") performance relative to a group of similar businesses and by reference to the Company's underlying EPS growth

The EPS performance condition was amended in 2011, as previously reported, and is as follows

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

The EPS growth measurement method continued on a reported Total Group basis for the performance year 2010, and was amended to a Retained Group basis for 2011 and 2012 in view of the sale of Synovate in October 2011

Changes to the TSR peer group for 2012 share awards were detailed in the 2011 Remuneration Report to take account of the Group's withdrawal from market research activities and specific focus on media The TSR peer group for awards granted in 2012 was as follows

Dentsu Inc
Havas S A
The Interpublic Group of Companies Inc
Omnicom Group Inc
Publicis Groupe S A
WPP Group plc

As this is a relatively small peer group, the TSR vesting schedule was amended as reported in 2012 from a position-based ranked approach to a pro-rata vesting on a straight line basis, in order to prevent small changes in relative performance having a disproportionate effect on vesting levels The TSR vesting schedule for 2012 awards was as follows

| TSR performance relative to peer group | Proportion of award vesting |
|---|---|
| Median or below | Nil |
| Equal to or above the upper decile TSR performance | 50% |
| For intermediate performance | Nil to 50% (pro-rata on a straight line basis) |

The PSP performance conditions are tested on the third anniversary of grant of the award There is no provision for retesting To the extent that the performance conditions are not satisfied, the awards lapse

The Committee believed that using both EPS growth and TSR for awards under the PSP provides a balanced incentive between assessing the Group's relative returns to shareholders and its underlying financial performance The blend also provides a balanced long-term incentive for the Group's executives No further awards have been granted under the PSP since the announcement on 12 July 2012 of the recommended offer for Aegis Group plc by Dentsu Inc

No awards will be made under previously closed schemes, although awards granted in the past will continue to be exercisable in accordance with the rules of each respective scheme The closed schemes are the 1995 Executive Share Option Scheme and the 2003 Executive Share Option Scheme Details of these schemes and details of all share incentive awards for each executive director serving during 2012 are set out below

**Pensions**

The Group aims to provide pension benefits in line with market practice and which allows executives to plan effectively for their retirement

Both Jerry Buhlmann and Nick Priday are members of a UK HMRC approved group personal pension plan scheme Pensionable salary is limited to base salary excluding all bonuses and other benefits Annual employer pension contributions or salary equivalent payments are shown in the audited Directors' Remuneration table

The Company continues to pay senior executives in cash any annual pension contribution exceeding £50,000 per annum, following the introduction of the new UK Pension Tax Relief regulations Jerry Buhlmann receives his full annual pension contribution in cash

### Service contracts

Details of the service contracts of those who served as executive directors during the year are set out below Apart from Harold Mitchell, who resigned on 26 March 2013, executive directors have rolling service contracts which expire at normal retirement age unless terminated beforehand in accordance with the terms of the individual contract and contain non-compete obligations Harold Mitchell's appointment was initially for a 2 year term expiring on 17 November 2012 and was extended during the year to expire at the point of the acquisition of Aegis Group plc by Dentsu Inc

| Name | Contract date | Notice period from Company | Notice period from director |
|---|---|---|---|
| Jerry Buhlmann | 20 04 10 | 12 months | 6 months |
| Nick Priday | 01 09 09 | 12 months | 6 months |
| Harold Mitchell | 15 03 11 | 6 months | 6 months |

Unless there are exceptional circumstances, it is the Company's policy that notice periods to be given by the Company will not exceed 12 months In addition, although they may contain provisions entitling the Company to make payments in lieu of notice, contracts will not include liquidated damages clauses and any termination benefits will be calculated on normal English legal contractual principles taking into account a director's duty to mitigate his loss

### Non-executive directors

The Company's policy during the year was for non-executive directors to be appointed under letters of engagement for an initial term of three years Renewal of appointments for a further term of three years was not automatic All non-executive directors resigned on 26 March 2013 Prior to those resignations, John Napier's term was due to expire in June 2014 and all other non-executive directors' terms were due to expire at Aegis's 2013 Annual General Meeting Appointments may be terminated in accordance with the articles of association and/or in some cases by the individual or Aegis giving one month's notice The fees of the non-executive directors are approved at a board meeting at which the non-executive directors do not vote Fees are based on time commitment and responsibility Kepler Associates provided external market data when fee levels were last increased in 2008 The current fee structure, which applied throughout the year, is shown below

| | |
|---|---|
| Base fee | £45,000 |
| Plus | |
| Chairman of Audit Committee | £10,000 |
| Chairman of Remuneration Committee | £10,000 |
| Senior Independent Director | £10,000 |

John Napier's annual fee as Chairman was £300,000 Neither he nor any of the other non-executive directors participated in an incentive scheme or received a bonus or pension contribution Apart from John Napier, whose benefits are shown below, non-executive directors did not receive benefits from the Company Dates of appointment are shown below

| Non-executive Director | Date of first appointment to the Board | Contract date | Date(s) of re-appointment | Unexpired term as at 27 March 2013 |
|---|---|---|---|---|
| John Napier | 30 06 08 | 07 04 11 | 15 03 11 | n/a |
| John Brady | 01 08 09 | 10 07 09 | 29 06 12 | n/a |
| Simon Laffin | 01 08 09 | 10 07 09 | 29 06 12 | n/a |
| Martin Read | 01 08 09 | 10 07 09 | 29 06 12 | n/a |
| Charles Strauss | 05 09 03 | 06 04 11 | 05 09 06, 05 09 09 and 29 06 12 | n/a |
| Lorraine Trainer | 02 08 05 | 23 08 11 | 02 08 08 and 02 08 11 | n/a |

Audited directors' remuneration

| | Salary and Fees £'000[a] | Benefits £'000[b] | Annual Cash Bonus £'000[c] | Total 2012 £'000 | Total 2011 £'000 | Pensions 2012 £'000[d] | Pensions 2011 £'000 |
|---|---|---|---|---|---|---|---|
| John Brady | 45 | - | - | 45 | 45 | - | - |
| Jerry Buhlmann | 775 | 52 | 1,052 | 1,879 | 1,402 | 202 | 195 |
| Simon Laffin | 55 | - | - | 55 | 55 | - | - |
| Harold Mitchell | 53 | - | - | 53 | 53 | - | - |
| John Napier | 300 | 18 | - | 318 | 317 | - | - |
| Robert Philpott (retired 31 12 11) | - | - | - | - | 734 | - | 108 |
| Nick Priday | 380 | 23 | 506 | 909 | 661 | 95 | 84 |
| Martin Read | 45 | - | - | 45 | 45 | - | - |
| Charles Strauss | 55 | - | - | 55 | 55 | - | - |
| Lorraine Trainer | 55 | - | - | 55 | 55 | - | - |
| TOTAL | 1,763 | 93 | 1,558 | 3,414 | 3,422 | 297 | 387 |

The figures above relate to remuneration earned by directors during the year
Notes

(a) The fee payable in respect of Simon Laffin's services was paid to Simon Laffin Business Services Limited
(b) Executive directors' benefits relate generally to the provision of a car, car cash allowance, fuel, life assurance and various disability and health insurances John Napier's benefits comprised an accommodation allowance of £33,000 pa (gross) and private health insurance
(c) The main terms of the bonus schemes are summarised in the 'Short term annual cash bonus incentives' section above
(d) As a result of recent changes in UK tax relief on pension contributions, the Company remitted all or part of the sum payable in respect of pensions for each of Jerry Buhlmann and Nick Priday as a separate pension allowance, which was paid to them in cash

It is the Board's policy that executive directors with external non-executive positions are allowed to retain any fees from such positions In general, before an executive director may accept an external non-executive position, permission must be sought from the Chairman, who will take into consideration the amount of time involvement required by the role Harold Mitchell held non-executive directorships at Crown Limited and ThoroughVision in Australia, (for which he received fees of approximately £71,000 and £39,000 pa respectively), and in various other community organisations in Australia, (all of which are unpaid) None of the other executive directors holds any external non-executive appointments

Except as disclosed in Note 33 to the financial statements, 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 2012

Aegis Group plc

### Dilution

Investor guidelines recommend that the number of newly-issued shares used to satisfy awards under all share plans over any ten year period should be limited to 10% of a company's issued share capital If all options granted had become exercisable on 31 December 2012 and new issue shares had been used to satisfy all exercises, the dilution would have been 1 98% of issued share capital

### Audited directors' share option interests

Ordinary shares for which directors have, or had during the year, beneficial options to subscribe are as follows (all such options were granted for nil consideration)

| Director | Options held at 01 01 12 | Granted during 2012 | Lapsed during 2012 | Exercised during 2012 | Options held at 31 12 12 | Exercise price | Date from which exercisable | Expiry Date |
|---|---|---|---|---|---|---|---|---|
| Jerry Buhlmann | 43,995 | - | 43,995 | - | - | 94 00p | 18 06 05 | 17 06 12 |
| | 300,000* | - | - | - | 300,000 | 101 75p | 31 03 08 | 30 03 15 |
| | 293,154* | - | - | - | 293,154 | 134 00p | 20 03 09 | 19 03 16 |
| | 271,646* | - | - | - | 271,646 | 147 50p | 23 03 10 | 22 03 17 |
| Total | 908,795 | - | - | - | 864,800 | | | |

Those options granted to Jerry Buhlmann and marked with an asterisk were granted under the 2003 Executive Share Option Scheme and had the following performance conditions attached

| Average annual EPS growth in excess of RPI | Proportion of option grants exercisable |
|---|---|
| 3% | Up to 0 5x salary |
| 3% to 5% | 0 5 to 1x salary (pro rata on a straight-line basis) |
| 5% to 10% | 1 to 2x salary (pro rata on a straight-line basis) |
| 10% to 15% | 2 to 3x salary (pro rata on a straight-line basis) |

The other options granted to Jerry Buhlmann were granted under the closed 1995 Executive Share Option Scheme (whose performance condition required that EPS growth over the performance period exceeded RPI plus 5% per annum and that the Company's TSR performance be greater than that of the FTSE 100 company ranked 33rd over the performance period) It was possible to re-test the conditions annually over the life of the option if they were not achieved after three years, in each case measuring from the same base point

Other than as noted above, no options have been granted, exercised, expired or lapsed during the year in respect of the directors

The middle market price of the ordinary 5 5p shares of the Company as derived from the Stock Exchange Daily Official List on 31 December 2012 was 234 8p and the range during the year was 140p to 237 8p On 12 July 2012, the day on which the recommended offer for Aegis Group plc by Dentsu Inc was announced, the share price closed at 235 3p, a rise of 73 10p from the closing price of 162 2p the previous day The share price on 25 March 2013, the latest practicable date prior to signing of the Annual Report and Accounts, was 239 80p The Company's shares were de-listed on 27 March 2013

Aegis Group plc

Audited awards under the 2003 Performance Share Plan

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

| Name | Maximum potential award of shares at 01 01 12 | Awards granted during year | Awards lapsed during year | Awards vested during year | Maximum potential award of shares at 31 12 12 | Performance period |
|---|---|---|---|---|---|---|
| Jerry Buhlmann | 925,657 | - | 324,906 | 600,751 | - | 01 01 09 to 31 12 11 |
| | 1,918,159 | - | - | - | 1,918,159 | 01 01 10 to 31 12 12 |
| | 800,712 | - | - | - | 800,712 | 01 01 11 to 31 12 13 |
| | | 835,654 | - | - | 835,654 | 01 01 12 to 31 12 14 |
| Nick Priday | 511,509 | - | - | - | 511,509 | 01 01 10 to 31 12 12 |
| | 320,285 | - | - | - | 320,285 | 01 01 11 to 31 12 13 |
| | | 417,827 | - | - | 417,827 | 01 01 12 to 31 12 14 |

The unadjusted market price of Aegis Group plc shares at the date of the 2010, 2011 and 2012 awards was 117 30p, 140 50p and 179 5p respectively

The number of shares shown in the columns entitled "maximum potential award of shares" represents the maximum number of shares capable of vesting at the end of the performance period, if the performance conditions are satisfied to the fullest extent

The performance conditions for all outstanding Performance Share Plan awards are set out in the policy section of this report

Details of the Performance Share Plan awards vesting in 2012 are as follows

| Name | Number Vested | Date of award | Market price at date of transfer | Gross gain |
|---|---|---|---|---|
| Jerry Buhlmann | 600,751 | 21 04 09 | 173 80p | £1,044,105 24 |

Aegis Group plc

Audited awards under the 2005 Incentive Share Plan (formerly known as the Performance Restricted Stock Plan)

| Name | Maximum potential award of shares at 01 01 12 | Awards granted during year | Awards lapsed during year | Awards vested during year | Maximum potential award of shares at 31 12 12 | Performance period |
|---|---|---|---|---|---|---|
| Nick Priday | 85,714 | - | - | 85,714 | - | 01 01 09 to 31 12 11 |
| | 250,000 | - | - | 250,000 | - | 01 01 09 to 31 12 11 |

Details of the Incentive Share Plan awards vesting in 2012 are as follows

| Name | Number vested | Date of award | Market price at date of transfer | Gross gain |
|---|---|---|---|---|
| Nick Priday | 85,714 | 21 04 09 | 173 90p | £149,056 65 |
| | 250,000 | 29 08 09 | 235 80p | £589,500 00 |

The market price of Aegis shares at the date of the 2009 awards was respectively 87 50p (April 2009) and 102 90p (August 2009) Awards vest in full provided the Company's average annual EPS growth over a three year performance period reaches 3% (RPI plus 3% in relation to awards granted up to 2010)

The number of shares shown in the columns entitled "maximum potential award of shares" represents the maximum number of shares which is capable of vesting at the end of the performance period if the performance conditions are satisfied

### Shareholding guidelines

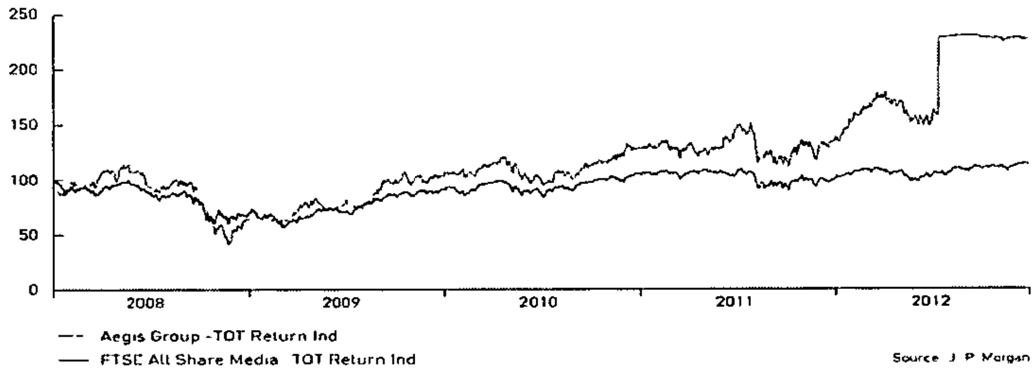
The Company has share ownership guidelines which operate in tandem with the executive share incentive schemes introduced in 2003, namely the Performance Share Plan and the Executive Share Option Scheme The guidelines, which were simplified in March 2011, required executive directors and other senior executives to retain in the form of shares for at least 2 years at least 35% of any profit made (after paying the exercise price and any tax liability) on the exercise of 2003 Executive Share Option Scheme options and the vesting of any Performance Share Plan awards Under the guidelines, no further Performance Share Plan awards were to be granted to executives who failed to retain shares in accordance with the guidelines

## Aegis Group plc

### Performance graph

The following graph illustrates the Company's TSR between 31 December 2007 and 31 December 2012 relative to the FTSE All Share Media Index (adjusted to reflect the 10 for 11 share consolidation effected by the Company on 24 October 2011) Aegis Group plc is a member of the FTSE All Share Media Index and the Remuneration Committee considers that a comparison of the Company's TSR relative to similar businesses is more appropriate than a comparison with a general FTSE Index

*Aegis vs FTSE All Share Media Index TSR Performance*




By order of the Board

Jerry Buhlmann

27 March 2013

**Ernst & Young**

# Independent Auditor's Report to the Members of Aegis Group plc

For the year ended 31 December 2012

We have audited the group financial statements of Aegis Group plc for the year ended 31 December 2012 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cash Flows Statement, the Consolidated Statement of Changes in Equity and the related notes 1 to 34 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

## Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the financial statements to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

## Opinion on financial statements

In our opinion the group financial statements

- give a true and fair view of the state of the group's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union,
- have been prepared in accordance with the requirements of the Companies Act 2006

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

### Other matter

We have reported separately on the parent company financial statements of Aegis Group plc for the year ended 31 December 2012 and on the information in the Directors' Remuneration Report that is described as having been audited

Ernst & Young LLP

*Richard Addison (Senior statutory auditor)*
*for and on behalf of Ernst & Young LLP, Statutory Auditor*
London
27 March 2013

## Consolidated income statement

For the year ended 31 December 2012

| | Notes | 2012 Excluding Dentsu transaction costs £m | 2012 Dentsu transaction costs £m | 2012 Total £m | 2011 £m |
|---|---|---|---|---|---|
| Turnover from continuing operations | | 12,335 9 | - | 12,335 9 | 11,854 7 |
| Revenue from continuing operations | 4 | 1,272 1 | - | 1,272 1 | 1,135 0 |
| Cost of sales | | (35 7) | - | (35 7) | (27 4) |
| Gross profit from continuing operations | | 1,236 4 | - | 1,236 4 | 1,107 6 |
| Operating expenses | | (1,131 3) | (44 5) | (1,175 8) | (961 8) |
| Operating profit / (loss) from continuing operations | 4 | 105 1 | (44 5) | 60 6 | 145 8 |
| Share of results of associates | | (10 4) | - | (10 4) | 2 0 |
| Profit / (loss) from continuing operations before interest and tax | | 94 7 | (44 5) | 50 2 | 147 8 |
| Investment income | 7 | 5 4 | - | 5 4 | 6 3 |
| Finance costs | 8 | (22 2) | (62 2) | (84 4) | (47 7) |
| Net finance costs | | (16 8) | (62 2) | (79 0) | (41 4) |
| Profit / (loss) from continuing operations before tax | | 77 9 | (106 7) | (28 8) | 106 4 |
| Tax | 9 | (23 9) | 6 1 | (17 8) | (25 3) |
| Profit / (loss) for the period from continuing operations | | 54 0 | (100 6) | (46 6) | 81 1 |
| Discontinued operations | | | | | |
| Loss for the period from discontinued operations | | - | - | - | (4 0) |
| Gain on disposal of discontinued operations after tax | | - | - | - | 88 2 |
| Profit / (loss) for the financial year | | 54 0 | (100 6) | (46 6) | 165 3 |
| Attributable to | | | | | |
| Equity holders of the parent | | 53 3 | (100 6) | (47 3) | 164 1 |
| Non-controlling interests | | 0 7 | - | 0 7 | 1 2 |
| | | 54 0 | (100 6) | (46 6) | 165 3 |
| Earnings per ordinary share | | | | | |
| Basic from continuing operations (pence) | 12 | 4 6 | (8 7) | (4 1) | 6 5 |
| Diluted from continuing operations (pence) | 12 | 4 6 | (8 7) | (4 1) | 6 5 |
| Basic on profit for the period (pence) | 12 | 4 6 | (8 7) | (4 1) | 13 4 |
| Diluted on profit for the period (pence) | 12 | 4 6 | (8 7) | (4 1) | 13 0 |
| Dividend per ordinary share (pence) | 11 | - | - | - | 20 28 |

The accompanying notes form an integrated part of the consolidated financial statements

## Consolidated statement of comprehensive income

For the year ended 31 December 2012

| | 2012 £m | 2011 £m |
|---|---|---|
| **(Loss) / Profit for the period** | (46 6) | 165 3 |
| Currency translation differences on foreign operations | | |
| - Group | (29 8) | (112 4) |
| - Non-controlling interests | (0 5) | (0 3) |
| Net investment hedges of foreign operations | 9 1 | 2 9 |
| Available-for-sale investments movements taken to equity | 0 4 | (0 4) |
| Cash flow hedges net movements taken to equity | (2 8) | (1 5) |
| Actuarial loss recognised on defined benefit pension schemes | (0 5) | - |
| Tax on share-based payments and cash flow hedge movements taken to equity | 2 7 | 0 4 |
| Other comprehensive gains and losses recognised directly in equity | (21 4) | (111 3) |
| **Total comprehensive (expense) / income for the financial year** | (68 0) | 54 0 |
| **Attributable to** | | |
| Equity holders of the parent | (68 2) | 53 1 |
| Non-controlling interests | 0 2 | 0 9 |
| | (68 0) | 54 0 |

## Consolidated balance sheet
At 31 December 2012

| | Notes | 2012 £m | 2011 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | 13 | 1,324 3 | 1,069 7 |
| Intangible assets | 14 | 210 3 | 139 4 |
| Property, plant and equipment | 15 | 71 9 | 52 7 |
| Interests in associates and joint ventures | 16 | 40 6 | 52 3 |
| Deferred tax assets | 21 | 53 6 | 56 3 |
| Available-for-sale financial assets | 17 | 2 2 | 4 8 |
| Derivative financial assets | 20 | 17 9 | 20 1 |
| Other financial assets | 20 | 0 9 | 0 7 |
| | | 1,721 7 | 1,396 0 |
| **Current assets** | | | |
| Work in progress | | 8 4 | 9 0 |
| Trade and other receivables | 18 | 2,622 2 | 2,372 4 |
| Derivative financial assets | 20 | 0 5 | 2 3 |
| Cash and short-term deposits | 20,29 | 403 1 | 626 1 |
| | | 3,034 2 | 3,009 8 |
| **Total assets** | | 4,755 9 | 4,405 8 |
| **Current liabilities** | | | |
| Trade and other payables | 19 | (3,262 1) | (2,948 7) |
| Borrowings | 20 | (124 0) | (136 2) |
| Derivative financial liabilities | 20 | (3 6) | (14 8) |
| Provisions | 22 | (17 5) | (4 5) |
| Current tax liabilities | | (15 0) | (16 6) |
| | | (3,422 2) | (3,120 8) |
| **Net current liabilities** | | (388 0) | (111 0) |
| **Non-current liabilities** | | | |
| Borrowings | 20 | (611 0) | (618 3) |
| Other non-current liabilities | 20,27 | (270 4) | (139 8) |
| Derivative financial liabilities | 20 | (11 6) | (13 3) |
| Provisions | 22 | (2 3) | (0 1) |
| Deferred tax liabilities | 21 | (59 2) | (50 8) |
| | | (954 5) | (822 3) |
| **Total liabilities** | | (4,376 7) | (3,943 1) |
| **Net assets** | | 379 2 | 462 7 |
| **Equity** | | | |
| Share capital | 23 | 64 5 | 64 4 |
| Own shares | 24 | (27 4) | (31 2) |
| Share premium account | 25 | 400 9 | 398 7 |
| Other equity reserves | | 11 3 | 16 0 |
| Foreign currency translation reserve | | (20 6) | 0 1 |
| Retained earnings | | (39 4) | 27 6 |
| Potential acquisition of non-controlling interests | | (14 4) | (18 5) |
| **Equity attributable to equity holders of the parent** | | 374 9 | 457 1 |
| Non-controlling interests | | 4 3 | 5 6 |
| **Total equity** | | 379 2 | 462 7 |

These financial statements were approved by the Board of Directors on 27 March 2013 and were signed on its behalf by

**Jerry Buhlmann** (Chief Executive Officer) **Nick Priday** (Chief Financial Officer)

# Consolidated cash flow statement
For the year ended 31 December 2012

| | Notes | 2012 £m | 2011 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash inflow from operations | 29 | 180 4 | 208 0 |
| Income taxes paid | | (46 3) | (42 1) |
| **Net cash inflow from operating activities** | | 134 1 | 165 9 |
| **Investing activities** | | | |
| Interest received | | 5 7 | 6 4 |
| Dividends received from associates | | 1 6 | 0 3 |
| Net cash paid on purchase of subsidiaries | | (148 1) | (47 7) |
| Net cash (paid) / received on disposal of subsidiaries | | (0 1) | 507 2 |
| Net cash invested in associates and joint ventures | | (0 5) | (11 3) |
| Net cash received on disposal of associates and joint ventures | | 1 0 | - |
| Payments of deferred consideration on current and prior period acquisitions | | (57 3) | (45 6) |
| Purchase of property, plant and equipment and intangible assets | | (59 0) | (48 4) |
| Proceeds from disposal of property, plant and equipment and intangible assets | | 0 9 | 2 7 |
| Other investing activities | | (0 1) | (1 8) |
| **Net cash (outflow) / inflow from investing activities** | | (255 9) | 361 8 |
| **Financing activities** | | | |
| Dividends paid to equity holders of the parent | | (23 1) | (231 5) |
| Dividends paid to non-controlling shareholders | | (1 7) | (1 2) |
| Net cash paid on purchase of additional stakes in existing subsidiaries | | (5 2) | (5 2) |
| Interest and other financial charges paid | | (36 1) | (36 9) |
| Proceeds from borrowings | | 98 4 | 25 7 |
| Repayments of loans | | (119 5) | (28 0) |
| Proceeds on issue of ordinary share capital | | 2 3 | 3 0 |
| Purchase of own shares | | (6 5) | (12 7) |
| Other financing activities | | (3 3) | (3 0) |
| **Net cash outflow from financing activities** | | (94 7) | (289 8) |
| **Net (decrease) / increase in cash and cash equivalents** | 29 | (216 5) | 237 9 |
| Translation differences | | (18 4) | (12 1) |
| Cash and cash equivalents at beginning of financial year | 29 | 617 2 | 391 4 |
| **Cash and cash equivalents at end of financial year** | | 382 3 | 617 2 |
| **Represented by** | | | |
| Cash and short-term deposits | | 403 1 | 626 1 |
| Bank overdrafts | 29 | (20 8) | (8 9) |
| **Cash and cash equivalents at end of financial year** | | 382 3 | 617 2 |

## Analysis of net debt

| | 1 January 2012 £m | Cash flow £m | Other non-cash movements £m | Exchange movements £m | 31 December 2012 £m |
|---|---|---|---|---|---|
| **Analysis of net debt** | | | | | |
| Cash and cash equivalents | 617 2 | (216 5) | - | (18 4) | 382 3 |
| Gross debt net of issue costs | (745 6) | 55 3 | (42 8) | 18 9 | (714 2) |
| **Total** | (128 4) | (161 2) | (42 8) | 0 5 | (331 9) |

# Consolidated statement of changes in equity

For the year ended 31 December 2012

| | Share Capital £m | Own shares £m | Share premium account £m | Other equity reserves* £m | Foreign currency translation reserve £m | Retained earnings £m | Potential acquisition of non controlling interests £m | Sub - total £m | Non controlling interests £m | Total equity £m |
|---|---|---|---|---|---|---|---|---|---|---|
| **At 1 January 2011** | 64 3 | (33 7) | 395 8 | 20 4 | 109 6 | 147 4 | (48 9) | 654 9 | 13 5 | 668 4 |
| Profit for the period | - | - | - | - | - | 164 1 | - | 164 1 | 1 2 | 165 3 |
| Currency translation differences on foreign operations | - | - | - | - | (112 4) | - | - | (112 4) | (0 3) | (112 7) |
| Net investment hedges of foreign operations | - | - | - | - | 2 9 | - | - | 2 9 | - | 2 9 |
| Available for sale investments movements taken to equity | - | - | - | - | - | (0 4) | - | (0 4) | - | (0 4) |
| Cash flow hedges movements taken to equity | - | - | - | - | - | (1 5) | - | (1 5) | - | (1 5) |
| Tax on cash flow hedge movements taken to equity | - | - | - | - | - | 0 4 | - | 0 4 | - | 0 4 |
| Total comprehensive income and expense | | | | | (109 5) | 162 6 | - | 53 1 | 0 9 | 54 0 |
| New share capital subscribed | 0 1 | | 2 9 | | - | | | 3 0 | | 3 0 |
| Purchase of shares by ESOP | | (12 7) | - | | | | | (12 7) | - | (12 7) |
| Shares awarded by ESOP | - | 15 2 | - | - | | (15 2) | - | - | - | - |
| Credit for share based incentive schemes | | | - | - | | 11 0 | - | 11 0 | - | 11 0 |
| Reclass of convertible bond imputed interest | | - | - | (4 4) | | 4 4 | | - | | - |
| Transactions with NCI | | | - | | - | (51 1) | 30 4 | (20 7) | (7 6) | (28 3) |
| Dividends | | | - | | | (231 5) | - | (231 5) | (1 2) | (232 7) |
| **At 1 January 2012** | 64 4 | (31 2) | 398 7 | 16 0 | 0 1 | 27 6 | (18 5) | 457 1 | 5 6 | 462 7 |
| (Loss) / Profit for the period | - | - | - | - | - | (47 3) | - | (47 3) | 0 7 | (46 6) |
| Currency translation differences on foreign operations | - | - | - | - | (29 8) | - | - | (29 8) | (0 5) | (30 3) |
| Net investment hedges of foreign operations | - | - | - | - | 9 1 | - | - | 9 1 | - | 9 1 |
| Available for sale investments movements taken to equity | - | - | - | - | - | 0 4 | - | 0 4 | - | 0 4 |
| Cash flow hedges net movements taken to equity | - | - | - | - | - | (2 8) | - | (2 8) | - | (2 8) |
| Actuarial loss recognised on defined benefit pension schemes | - | - | - | - | - | (0 5) | - | (0 5) | - | (0 5) |
| Tax on share-based payments and cash flow hedge movements taken to equity | - | - | - | - | - | 2 7 | - | 2 7 | - | 2 7 |
| Total comprehensive income and expense | | | - | - | (20 7) | (47 5) | | (68 2) | 0 2 | (68 0) |
| New share capital subscribed | 0 1 | - | 2 2 | | - | - | - | 2 3 | - | 2 3 |
| Purchase of shares by ESOP | | (6 5) | - | | - | - | - | (6 5) | - | (6 5) |
| Shares awarded by ESOP | | 10 3 | - | - | | (10 3) | - | - | | - |
| Credit for share-based incentive schemes | | | | - | - | 17 0 | | 17 0 | - | 17 0 |
| Reclass of convertible bond imputed interest | | - | - | (4 7) | - | 4 7 | | - | - | - |
| Transactions with NCI | - | - | - | | - | (7 8) | 4 1 | (3 7) | 0 2 | (3 5) |
| Dividends | | - | - | | - | (23 1) | - | (23 1) | (1 7) | (24 8) |
| **At 31 December 2012** | 64 5 | (27 4) | 400 9 | 11 3 | (20 6) | (39 4) | (14 4) | 374 9 | 4 3 | 379 2 |

*The other equity reserves include the capital redemption reserve and the equity component of the convertible bond

## Notes to the consolidated financial statements (continued)
For the year ended 31 December 2012

### 1 General information

Aegis Group plc is a company incorporated in the United Kingdom under the Companies Act 2006 The address of the registered office is given in the Directors' Report The nature of the Group's operations and its principal activities are set out in note 4 and in the Directors' Report

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

### 2 Basis of preparation

The Group financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') adopted by the European Union and comply with Article 4 of the EU IAS Regulation The financial statements have been prepared on the going concern basis of accounting for the reasons set out in the Directors' Report

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments The principal accounting policies adopted are set out below in note 3

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective for the year

IFRS 7 Disclosures – Offsetting of Financial Assets and Liabilities
IFRS 9 Financial Instruments
IFRS 10 Consolidated Financial Statements
IFRS 11 Joint Arrangements
IFRS 12 Disclosure of Interests in Other Entities
IFRS 13 Fair Value Measurement
Amendments to IFRS 7 and IFRS 9 – Mandatory Effective Date and Transition Disclosures
Amendments to IAS 1 (revised 2011)
Amendments to IAS 19 (revised 2011)
IAS 27 Separate Financial Statements (reissued 2011)
IAS 28 Investments in Associates and Joint Ventures (reissued 2011)
IAS 32 Financial Instruments Presentation - Offsetting of Financial Assets and Liabilities
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group

#### Adoption of standards

In the current financial year, the Group has adopted the following standards and interpretations These standards have no effect on the financial statements of the Group

IFRS 7 (amended) Disclosures - Transfers of Financial Assets
Amendments to IAS 12 (revised 2010)

#### Discontinued operations

The Group completed the disposal of Synovate, its market research business, excluding Aztec, the scan data services business, to Ipsos S A on 12 October 2011, following approval from the ordinary shareholders of Aegis Group plc on 16 August 2011, and receipt of mandatory anti-trust clearances based on an enterprise value of £525m on a cash free / debt free basis The transaction is subject to the normal finalisation of completion date actual levels of working capital, cash and debt Therefore the results of Synovate (excluding Aztec) for the year ended 31 December 2011 are shown as 'discontinued operations' in accordance with IFRS 5 Non-current assets held for sale and discontinued operations

All income statement comparatives exclude discontinued operations unless otherwise stated Throughout these financial statements, "Synovate" is the disposed market research business and excludes Aztec

## 3 Accounting policies

### Principal accounting policies

The principal accounting policies set out below have been consistently applied to all the periods presented in this Annual Report

### Basis of consolidation

#### (a) Subsidiaries

The consolidated financial statements incorporate the results, cash flows and net assets of Aegis Group plc and the entities controlled by it (its subsidiaries) drawn up to 31 December each year after eliminating internal transactions and recognising any non-controlling interests in those entities Control is achieved where the Group has the power to govern the financial and operating policies of an investee entity so as to obtain economic benefits from its activities Where subsidiaries are acquired or disposed of in the year, their results and cash flows are included from the effective date of acquisition or up to the effective disposal date

Where a consolidated company is less than 100% owned by the Group, the non-controlling interest share of the results and net assets are recognised at each reporting date The interests of non-controlling shareholders are ordinarily measured at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets, but may alternatively be initially measured at fair value The choice of measurement is made on an acquisition-by-acquisition basis Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity Total comprehensive income is attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance

Where a business combination is achieved in stages, on the date control is achieved the Group remeasures its previously held equity interest in the acquiree at its acquisition-date fair value, with any resulting gain or loss presented in profit or loss Any amounts previously deferred in other comprehensive income are recognised on the same basis as if the Group had directly disposed of the equity interest

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to equity holders of the parent

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests Amounts previously recognised in other comprehensive income in relation to the subsidiary are reclassified to profit or loss or transferred directly to retained earnings as appropriate, in the same manner as would be required if the relevant assets or liabilities were disposed of The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition of the reclassified investment

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

The company, Mediaagentur Dr Pichutta GmbH & Co KG, Wiesbaden, is included in the consolidated financial statements of Aegis Group plc, as such we apply S264b HGB of the German Commercial Code

3 Accounting policies (continued)

Basis of consolidation (continued)

**(b) Associates**

Associates are entities in which the Group has a participating interest, over whose operating and financial policies it exercises significant influence and which are neither subsidiaries nor joint ventures Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over these policies The accounting policies used by the Group's associates are the same as those used by the Group, as are the reporting dates in the majority of cases Where reporting dates for local accounts do not match the Group dates, the Group obtains additional reporting to ensure the figures included in the consolidated accounts are current

The Group's associates are accounted for using the equity method of accounting Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill within the associate's carrying amount and is assessed for impairment as part of that investment The Group's share of its associates' post-acquisition profits or losses and any impairment of goodwill is recognised in the income statement and as a movement in the Group's share of associates' net assets in the balance sheet Its share of any post-acquisition movements in reserves is recognised either directly in equity or in other comprehensive income as appropriate Losses of the associates in excess of the Group's interest in those associates are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate

**(c) Joint ventures**

Joint ventures are investments over which the Group exercises joint control with a third party Such investments are equity-accounted, using the same method of equity accounting as described in associates above

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method The consideration for each acquisition is measured at the aggregate of the acquisition-date fair values of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree Acquisition-related costs are recognised in profit or loss as incurred

Where applicable, the consideration for the acquisition includes contingent consideration, measured at its acquisition-date fair value Subsequent changes in the fair value of contingent consideration are adjusted against the cost of the acquisition when they qualify as measurement period adjustments (see below), or otherwise are accounted for as fair value changes in profit or loss

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) are recognised at their fair value at the acquisition date If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts Provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised at that date

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year

For acquisitions completed prior to 1 January 2010, the revaluation of contingent consideration does not result in an entry to profit or loss, but is adjusted against the carrying amount of associated goodwill Such contingent consideration liabilities are discounted and an imputed interest charge is recognised in profit or loss

3 Accounting policies (continued)

## Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is achieved (the acquisition date) Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed

If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase

Following initial recognition, goodwill is not amortised but is carried at cost less any accumulated impairment losses Goodwill recognised under UK GAAP prior to the date of transition to IFRS is stated at net book value as at that date less any subsequent accumulated impairment losses

Goodwill is allocated to disposals on a CGU basis where entire CGU's are disposed, or otherwise on a relative value basis

Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal

## Goodwill impairment

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

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units ("CGUs") expected to benefit from the synergies of the combination CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit The Group's CGUs are given in note 13

## Intangible assets

Separately acquired intangible assets are capitalised at cost Intangible assets acquired as part of a business combination are capitalised at fair value at the date of acquisition Fair value is calculated based on the Group's valuation methodology, using discounted cash flows, charges avoided or replacement costs as appropriate

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

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

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

3 Accounting policies (continued)

**Intangible assets (continued)**

Intangible assets (both internally generated and separately acquired) are amortised to residual values on a straight-line basis over the useful economic life of the asset as follows

| | |
|---|---|
| Software | 20% to 50% per annum |
| Customer relationships | 20% per annum |
| Patents and trademarks | Nil to 20% per annum |
| Non compete agreements | 14% to 50% per annum |
| Intellectual property | 33% per annum |
| Other | 10% to 50% per annum |

Once acquired intangible assets have exceeded their useful economic lives, the cost and accumulated amortisation of the assets are removed from the balance sheet as an asset retirement

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

**Property, plant and equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation and any recognised impairment losses Depreciation is charged to write off the cost of these assets to their residual value over their expected useful lives, using the straight-line method, on the following basis

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

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

**Impairment of tangible and intangible assets excluding goodwill**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets (both internally generated and separately acquired) to determine whether there is any indication that those assets have suffered an impairment loss If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any The recoverable amount is the higher of fair value less costs to sell and value in use In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount

**Work in progress**

Work in progress comprises directly attributable costs deferred to align with the timing of revenue recognition Work in progress is held in the balance sheet at the lower of cost and net realisable value

3 Accounting policies (continued)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation

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

From time to time the Group is exposed to claims which the Group vigorously defends Provision for costs is made when the likelihood of a case proceeding is adjudged as probable Disclosure is made of potentially material matters where, on the basis of legal advice, an adverse outcome cannot currently be judged as remote

Turnover and revenue

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

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

Media revenue arises in the form of fees and commissions for media services and performance related incentives Fee and commission revenue is recognised when earned, principally when advertisements appear in the media over the period of the relevant assignments or agreements Performance related income is recognised when it can be reliably estimated whether, and the extent to which, the performance criteria have been met

For market research and media project businesses, revenue is recognised based on the stage of completion of each project, which is indicated by the satisfactory completion of a specific phase of a project Provision is made for losses on a project as soon as it becomes clear that a loss will arise Invoices raised during the course of a project are booked as deferred income on the balance sheet until such a time as the related revenue is recognised in the income statement

Investment income

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

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

Share-based payment transactions

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

Certain employees receive remuneration in the form of share-based payments, including shares or rights over shares The cost of equity-settled transactions with employees is measured by reference to the fair value of the instruments concerned at the date at which they are granted The fair value is determined by an external valuer using a stochastic model The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions The impact of the revision of the original estimates, if any, is recognised in profit and loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity

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

## 3 Accounting policies (continued)

### Retirement benefits

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

In addition, the Group has a small number of other retirement benefit schemes, principally where required by statute in certain jurisdictions These schemes are not considered by management to represent standard defined contribution schemes and do not vary significantly in terms of the Group's liability However, IAS 19 requires that these schemes be disclosed as defined benefit schemes

The liability recognised in the balance sheet in respect of defined benefit obligations is the present value of the defined benefit obligation at the balance sheet date as adjusted for unrecognised past service cost less the fair value of the plan assets Any asset resulting from this calculation is limited to unrecognised past service cost, plus the present value of available refunds and reductions in future contributions to the scheme The defined benefit obligation is calculated using the project unit credit method with actuarial valuations being carried out at each balance sheet date The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds approximating to the terms of the related liability

Actuarial gains and losses are recognised immediately outside the income statement and are presented in the consolidated statement of comprehensive income Past service cost is recognised immediately to the extent that the benefits are already vested and otherwise is amortised on a straight-line basis over the average period until the benefits become vested

### Foreign currencies

The individual financial statements of each group company are presented in the currency of the primary economic environment in which it operates (its functional currency) The consolidated financial statements are reported in Sterling, which is the functional currency of Aegis Group plc and the presentational currency for the Group's consolidated financial statements

In group companies, the term 'foreign currencies' refers to currencies other than the entity's functional currency Transactions in foreign currencies are recorded at the exchange rate ruling at the date of the transaction Upon settlement, monetary assets and liabilities denominated in foreign currencies are re-translated at the rate ruling on the settlement date Monetary assets and liabilities denominated in foreign currencies at the year end are re-translated at the exchange rate ruling at the balance sheet date Exchange differences arising upon re-translation at the settlement date or balance sheet date are taken to the income statement

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated

Exchange differences arising on the re-translation of foreign currency borrowings used to provide a hedge against foreign currency investments, including goodwill, are recognised in other comprehensive income as long as the hedge remains effective

For consolidation purposes, the trading results and cash flows arising in operations with non-Sterling functional currencies are translated into Sterling at average exchange rates for the period Assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date Exchange differences arising upon consolidation are recognised in other comprehensive income In the event of the disposal of an operation the cumulative effect of such translation is reclassified to the income statement

### Leased assets

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases Operating lease rentals are charged to the income statement over the lease term on a straight-line basis In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability and recognised as a reduction of rental expense on a straight-line basis

## 3 Accounting policies (continued)

### Taxation

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

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

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

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

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

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

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

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

3 Accounting policies (continued)

**Financial instruments**

**Financial assets**

The Group's financial assets principally include the following

*Cash and short-term deposits*
Cash and short-term deposits include cash at bank and in hand and highly liquid deposits with an original maturity of three months or less which are subject to an insignificant risk of changes in value In the Consolidated Cash Flow Statement, bank overdrafts are deducted from cash and short-term deposits to give cash and cash equivalents

*Trade receivables*
Trade receivables are initially recorded at the invoiced value and subsequently reduced by appropriate allowances for estimated irrecoverable amounts Current trade receivables do not carry any interest charge Interest may be charged on overdue balances

*Available-for-sale financial assets*
Available-for-sale financial assets are initially measured at cost, including transaction costs, and at subsequent reporting dates at fair value Gains and losses arising from changes in fair value are recognised directly in other comprehensive income, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the net profit or loss for the period Impairment losses recognised in the income statement for equity instruments classified as available-for-sale are not subsequently reversed through profit or loss

*Impairment of financial assets*
Financial assets, other than those at FVTPL 'Fair Value Through Profit and Loss', are assessed for indicators of impairment at each balance sheet date Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted

**Financial liabilities and equity**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into

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

*Trade Payables*
Trade payables are initially stated at fair value and subsequently at amortised cost

*Equity instruments*
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities Ordinary shares are classified as equity instruments Equity instruments issued by the Company are recorded at the value of proceeds received, net of direct issue costs

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

3 Accounting policies (continued)

Financial instruments (continued)

*Compound instruments*
The Group issued £190 6m convertible bonds in April 2010 The convertible bonds are regarded as compound financial instruments The component parts of compound instruments issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement At the date of issue, in the case of a convertible bond denominated in the functional currency of the issuer that may be converted into a fixed number of equity shares, the fair value of the liability component is estimated using the prevailing market interest rate that the Group could achieve for a similar non-convertible instrument This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole This is recognised and included within equity in the Other Equity Reserves and is not subsequently remeasured

Issue costs are apportioned between the liability and equity components of the convertible bonds based on their relative carrying amounts at the date of issue The portion relating to the equity component is charged directly against equity The non-cash element of the interest charge is reclassified within equity at each period end to exclude the impact of the accounting charge from Retained Earnings This element of the charge is recognised within the Other Equity Reserves

Derivative financial instruments

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

Derivative financial instruments are held at fair value at the balance sheet date A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months Other derivatives are presented as current assets or current liabilities

Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges of future cash flows are recognised directly in other comprehensive income and the ineffective portion is recognised immediately in the income statement Amounts deferred in this way are recognised in the income statement in the same period in which the hedged firm commitments or forecast transactions are recognised in the income statement Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise Where such changes are intended to provide a natural hedge of a particular risk, the income statement classification reflects this

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting At that point in time, any cumulative gains or losses on the hedging instrument recognised in other comprehensive income are retained until the forecast transaction occurs If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to the income statement for the period Note 20 includes further information on hedge accounting as applied by the Group

3 Accounting policies (continued)

**Financial instruments (continued)**

*Liabilities in respect of option agreements with non-controlling shareholders*
The Group is party to a number of put and call options over the remaining non-controlling stakes in its subsidiaries In accordance with IAS 39, put options are treated as derivatives over equity instruments and the amounts that are potentially to be paid for the stakes are recorded as financial liabilities at fair value on initial recognition, with a corresponding decrease in reserves Fair value is calculated based on the discounted value of expected future payments

Subsequent changes in the fair value of the liability are recognised as movements in the income statement On exercise and settlement of a put option liability the cumulative amounts are removed from reserves, along with the derecognition of non-controlling interests

**Accounting estimates and uncertainties**

The Group makes estimates and judgements concerning the future and the resulting estimates may, by definition, vary from the related actual results The Directors consider the critical accounting estimates and judgements to be

- **Revenue recognition**
  Judgement is required in selecting the appropriate timing and amount of revenue recognised, particularly where the Group recognises performance related income Revenue is only recognised when it can be reliably estimated using customer specific information and, where there is a performance related element, to the extent to which the performance criteria have been met

  The likelihood of collection of trade receivables also requires judgement to be applied The Group monitors the levels of provisioning required based on historical trends and by detailed review of individually significant balances

- **Contingent deferred consideration and put option payments in respect of acquisitions**
  The Group determines the amount of deferred consideration to be recognised according to the formulae agreed at time of acquisition, normally related to the future earnings of the acquired entity Estimates of the expected future earnings of the acquired entity therefore affect the valuation of deferred consideration The liability for deferred consideration is reviewed at each balance sheet date and revaluation entries are applied, if required, to deferred consideration and either goodwill or profit or loss in accordance with the Group's accounting policy for business combinations, discussed above

  Deferred consideration liabilities are discounted to their fair value in accordance with IFRS 3 and IAS 37 The difference between the fair value of these liabilities and the actual amounts payable is charged to the income statement as a notional finance cost

  Key areas of judgement in calculating the fair value of the put option liabilities are the expected future cash flows and earnings of the acquired entity and the discount rate

## 3 Accounting policies (continued)

### Accounting estimates and uncertainties (continued)

- **Recognition of share-based payments**
  The Group makes share-based payments to certain employees These payments are measured at their estimated fair value at the date of grant The fair value is determined by an external valuer using a stochastic model

  The fair value is expensed on a straight-line basis over the vesting period of the grant The vesting period charge is calculated with reference to the estimated number of awards that are expected to vest, as determined by the anticipated number of leavers during the vesting period and based on an annual assessment of non-market performance conditions attached to certain awards See note 31 for further details

- **Valuation of intangible assets**
  The Group exercises judgement in determining the fair value of identifiable assets, liabilities and contingent liabilities assumed in business combinations In calculating the fair values of intangibles the Group makes assumptions on the timing and amount of future cash flows generated by the assets it has acquired, the appropriate discount rates and the useful economic lives of the assets purchased

- **Impairment**
  In determining whether an impairment loss has arisen on goodwill or intangible assets the Group makes judgements over the value in use of its CGUs In calculating the value in use of a CGU the Group makes estimates of future forecast cash flows and discount rates to derive a net present value of these cash flows and determine if an impairment has occurred Key areas of judgement include the determination of the long term growth rate applicable to each CGU and the determination of the CGUs themselves See note 13 for further details

- **Taxation**
  Tax laws that apply to the Group's businesses may be amended by the relevant authorities, for example as a result of changes in fiscal circumstances or priorities Such potential amendments and their application to the Group are regularly monitored and the requirement for recognition of any liabilities assessed where necessary

  Being a multinational Group with tax affairs in many geographic locations inherently leads to a highly complex tax structure which makes the degree of estimation and judgement more challenging The resolution of issues is not always within the control of the Group and is often dependent on the efficiency of legal processes Such issues can take several years to resolve The Group takes a conservative view of unresolved issues, however the inherent uncertainty regarding these items means that the eventual resolution could differ significantly from the accounting estimates and therefore may impact the Group's results and future cash flows

- **Deferred tax**
  The key area of judgement in respect of deferred tax accounting is the assessment of the expected timing and manner of realisation or settlement of the carrying amounts of assets and liabilities held at the balance sheet date In particular, assessment is required of whether it is probable that there will be suitable future taxable profits against which any deferred tax assets can be utilised

## Notes to the consolidated financial statements (continued)
For the year ended 31 December 2012

### 4 Operating segments

Under IFRS 8 Operating segments, the Group is required to identify reportable segments on the basis of the information reported its chief operating decision-maker, the Board of Directors, for the purposes of resource allocation and assessment of segment performance The Group is primarily organised into divisions focusing on the two business sectors in which the Group operates Aegis Media and Aztec Intersegment trading is not significant to any operating segment and no intersegment trading information is included in reports to the Board of Directors Therefore all information reported below relates to external trade

The accounting policies of the reportable segments are the same as the Group's accounting policies, which are described in note 3 All assets and liabilities are allocated to reportable segments with the exception of centrally-managed financial instruments, tax and other centrally-managed balances Goodwill is allocated to the segments as described in note 13

| Statutory Results | 2012 | 2012 | 2011 | 2011 |
|---|---|---|---|---|
| | Revenue £m | Operating profit £m | Revenue £m | Operating profit £m |
| Aegis Media EMEA | 651 1 | 78 7 | 630 9 | 121 7 |
| Aegis Media Americas | 284 9 | 29 5 | 217 3 | 15 8 |
| Aegis Media Asia Pacific | 256 6 | 36 9 | 220 6 | 30 4 |
| Aegis Media | 1,192 6 | 145 1 | 1,068 8 | 167 9 |
| Aztec | 79 5 | (2 1) | 66 2 | (1 9) |
| Corporate costs | - | (82 4) | - | (20 2) |
| Continuing operations | 1,272 1 | 60 6 | 1,135 0 | 145 8 |
| Discontinued operations | - | - | 361 5 | 91 9 |
| | 1,272 1 | 60 6 | 1,496 5 | 237 7 |

Following the disposal of Synovate in 2011, as discussed in note 2, the Board of Directors now receives information relating to Aegis Media on a regional basis As a result, Aegis Media regions meet the definition of reportable segments, and are separately presented in the table above Reportable segment result has changed in the year and is now statutory operating profit

## Notes to the consolidated financial statements (continued)
For the year ended 31 December 2012

### 4 Operating segments (continued)

### Segment assets and other segment information

| 2012 | Assets £m | Liabilities £m | Depreciation and amortisation £m | Additions to non-current assets £m | Impairment £m |
|---|---|---|---|---|---|
| Aegis Media EMEA | 2,074 2 | (1,661 1) | (32 0) | 92 3 | - |
| Aegis Media Americas | 1,199 8 | (958 4) | (15 8) | 215 1 | - |
| Aegis Media Asia Pacific | 1,350 6 | (877 0) | (23 2) | 147 8 | 13 4 |
| Aztec | 77 5 | (54 3) | (3 5) | 1 3 | 7 6 |
| **Reportable segment total** | 4,702 1 | (3,550 8) | (74 5) | 456 5 | 21 0 |
| Borrowings not allocated to reportable segments | - | (583 8) | - | - | - |
| Other items not allocated to reportable segments | 53 8 | (242 1) | (2 6) | 4 1 | - |
| **Consolidated Total** | 4,755 9 | (4,376 7) | (77 1) | 460 6 | 21 0 |

| 2011 | Assets £m | Liabilities £m | Depreciation and amortisation £m | Additions to non-current assets £m | Impairment £m |
|---|---|---|---|---|---|
| Aegis Media EMEA | 2,244 9 | (1,852 9) | 25 6 | 215 6 | - |
| Aegis Media Americas | 678 3 | (581 3) | 8 3 | 24 1 | - |
| Aegis Media Asia Pacific | 1,055 5 | (613 2) | 21 4 | 11 3 | 9 4 |
| Aztec | 77 8 | (57 1) | 3 3 | 4 7 | - |
| Reportable segment total | 4,056 5 | (3,104 5) | 58 6 | 255 7 | 9 4 |
| Borrowings not allocated to reportable segments | - | (760 1) | - | - | - |
| Other items not allocated to reportable segments | 349 3 | (78 5) | 1 4 | 9 1 | - |
| | 4,405 8 | (3,943 1) | 60 0 | 264 8 | 9 4 |
| Discontinued operations | - | - | 10 8 | 28 2 | - |
| Consolidated Total | 4,405 8 | (3,943 1) | 70 8 | 293 0 | 9 4 |

### Revenue from major products and services

Aegis Media's business comprises the provision of a number of integrated media services, which are considered to represent a single group of closely-related services Therefore, no further analysis by service is necessary

### Geographical information

The Group operates in numerous countries throughout the world Management has determined that revenues from external customers attributed to an individual foreign country are material if they make up more than 10% of consolidated Group revenue, and in such cases the revenue arising in these countries is disclosed separately The Group's country of domicile is the UK All comparatives exclude discontinued operations

| | Revenue | | Non-current assets | |
|---|---|---|---|---|
| | 2012 £m | 2011 £m | 2012 £m | 2011 £m |
| UK | 174 4 | 149 1 | 185 7 | 159 3 |
| USA | 220 8 | 154 2 | 349 6 | 165 9 |
| Australia | 177 4 | 155 0 | 361 3 | 388 5 |
| Other | 699 5 | 676 7 | 750 5 | 600 4 |
| **Consolidated total** | 1,272 1 | 1,135 0 | 1,647 1 | 1,314 1 |

### Major customers

The Group does not have a single external customer that contributes 10% or more to Group revenue

## 5 Operating profit

Operating profit for the Group has been arrived at after charging/(crediting)

| | 2012 £m | 2011 £m |
|---|---|---|
| Net foreign exchange losses/(gains) | 0 1 | (0 5) |
| Depreciation of property, plant and equipment | 19 1 | 19 2 |
| Amortisation of intangible assets included in operating expenses | 58 0 | 40 8 |
| Operating lease expense | 56 6 | 51 4 |
| Staff costs | 750 1 | 635 5 |

All comparatives exclude discontinued operations

A detailed analysis of auditors' remuneration charged to operating profit from continuing operations is provided below

| | 2012 £m | 2012 % | 2011 £m | 2011 % |
|---|---|---|---|---|
| Audit fees | | | | |
| Fees payable to the Company's auditors for the audit of the company's annual accounts | 0 2 | 6 1% | 0 2 | 8 0% |
| Fees payable to the Company's auditors and their associates for other services to the group | | | | |
| - The audit of the Company's subsidiaries pursuant to legislation | 2 4 | 72 7% | 1 5 | 60 0% |
| Total audit fees | 2 6 | 78 8% | 1 7 | 68 0% |
| Non audit fees | | | | |
| - Other services pursuant to legislation (interim review) | 0 1 | 3 0% | 0 1 | 4 0% |
| - Tax services | 0 3 | 9 1% | 0 2 | 8 0% |
| - Other services | 0 3 | 9 1% | 0 5 | 20 0% |
| Total non-audit fees | 0 7 | 21 2% | 0 8 | 32 0% |
| Total fees paid to the Company's auditors | 3 3 | 100 0% | 2 5 | 100 0% |

## 6 Staff costs

The average monthly number of employees was

| | 2012 Number | 2011 Number |
|---|---|---|
| Aegis Media | 13,200 | 11,523 |
| Aztec | 489 | 437 |
| Corporate | 53 | 45 |
| | 13,742 | 12,005 |

All comparatives exclude discontinued operations

Staff costs consist of

| | 2012 £m | 2011 £m |
|---|---|---|
| Wages, salaries, bonus and benefits | 651 5 | 547 0 |
| Social security costs | 83 9 | 76 0 |
| Other pension costs | 14 7 | 12 5 |
| | 750 1 | 635 5 |

Wages, salaries, bonus and benefits includes a share-based payment charge of £18 7m (2011 £6 9m) including an element of accelerated vesting in relation to the Dentsu transaction See note 31

All comparatives exclude discontinued operations

## Notes to the consolidated financial statements (continued)
For the year ended 31 December 2012

### 7 Investment income

| | 2012 | 2011 |
|---|---|---|
| | £m | £m |
| Interest receivable | 5 4 | 6 3 |

All comparatives exclude discontinued operations

### 8 Finance costs

| | 2012 | 2011 |
|---|---|---|
| | £m | £m |
| Interest payable on bank loans and overdrafts | (1 0) | (1 3) |
| Interest payable on loan notes, other loans and pension scheme liabilities | (36 6) | (39 1) |
| | (37 6) | (40 4) |
| Exchange movements on financing items | (0 1) | - |
| Amortisation of financing costs and fees | (5 6) | (5 5) |
| Fair value movements on deferred consideration | 23 5 | 7 5 |
| Fair value movements on acquisition put options | 0 6 | 0 9 |
| Fair value movements on non-hedge derivatives | 0 4 | (0 9) |
| Fair value movement arising on derivatives in a designated fair value hedge | 2 6 | 11 2 |
| Adjustment to hedged items in a designated fair value hedge | (2 6) | (11 1) |
| Impairment of available-for-sale financial assets | (3 4) | (9 4) |
| Dentsu related finance costs | (62 2) | - |
| Finance costs | (84 4) | (47 7) |

Exchange movements on financing items includes fair value movements in derivative instruments intended to provide a natural hedge of exchange rate risk Information on the Group's designated fair value hedges is given in note 20 All comparatives exclude discontinued operations

The Group's Private Placement Debts include change of control provisions which lead to the expected prepayment of the notes shortly after change of control The Dentsu related finance costs include a 'make-whole' amount to compensate note-holders for lost interest Change of control provisions are explained in further detail in note 20

## Notes to the consolidated financial statements (continued)
For the year ended 31 December 2012

### 9 Tax on profit on ordinary activities

The tax charge is made up of the following

| | 2012 £m | 2011 £m |
|---|---|---|
| Current tax | 38 5 | 43 3 |
| Adjustments in respect of prior years | 2 5 | 1 4 |
| | 41 0 | 44 7 |
| Deferred tax (note 21) | (23 2) | (19 4) |
| | 17 8 | 25 3 |

The tax charge for the year ended 31 December 2012 is £17 8m (2011 £25 3m) representing an effective tax rate (including deferred tax on goodwill) on statutory (losses) / profits of (61 8)% (2011 23 8%) The tax charge for the year ended 31 December 2012 includes a deferred tax expense of £5 8m (2011 £4 6m) for tax deductions in respect of goodwill IFRS requires that such deferred tax is recognised even if a liability would only unwind on the eventual sale or impairment of the business in question Additionally, the tax charge does not recognise a tax credit of £2 2m in respect of future estimated deductions for share schemes which have not vested at 31 December 2012 As required under IFRS 2 this credit has been shown in the Consolidated Statement of Comprehensive Income

UK Corporation tax is calculated at 24 5% (2011 26 5%) of the estimated assessable profit for the year Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions

In 2012, the UK Government has enacted legislation which has reduced the main rate of corporation tax to 24% from 1 April 2012 Further reductions in the main rate of corporation tax are proposed to reduce the rate to 23% from 1 April 2013, 21% from 1 April 2014 and to 20% from 1 April 2015 The net UK deferred tax asset has been calculated using the substantially enacted rates applicable when the temporary difference is expected to reverse The impact on the Group's net assets is not expected to be material

The total charge for the year can be reconciled to the accounting profit as follows

| | 2012 £m | 2011 £m |
|---|---|---|
| (Loss) / Profit before tax from continuing operations | (28 8) | 106 4 |
| Profit before tax from discontinuing operations | - | 91 4 |
| (Loss) / Profit before income tax | (28 8) | 197 8 |
| Tax at the UK corporation tax rate of 24 5% (2011 26 5%) | (7 1) | 52 4 |
| Adjustments in respect of prior years | 2 5 | 1 6 |
| Tax effect of income/expenditure that is not taxable/deductible | 18 3 | 11 0 |
| Rate differences on overseas earnings | 1 8 | (5 4) |
| Tax losses carried forward in the period | 0 4 | 6 3 |
| Tax payable on gain on sale of discontinued operations | - | 4 2 |
| Differences arising from discontinued operations | - | (20 9) |
| Impact of short term temporary difference not recognised for deferred tax | 1 9 | (16 7) |
| Tax expense for the year | 17 8 | 32 5 |
| Effective rate of statutory tax charge on statutory profits | (61 8)% | 16 4% |

## Notes to the consolidated financial statements (continued)
For the year ended 31 December 2012

### 9 Tax on profit on ordinary activities (continued)

IAS 1 requires income from associates to be presented net of tax on the face of the income statement and not in the Group's tax charge Associates' tax included within 'share of results of associates' for the year ended 31 December 2012 is £0 2m (2011 £0 1m)

The tax charge for the continuing group for the year is reconciled to the Total Group charge below

| | 2012 | 2011 |
|---|---|---|
| | £m | £m |
| Tax expense for the year from continuing operations | 17 8 | 25 3 |
| Tax expense for the year from discontinued operations | - | 3 0 |
| Tax charge arising on gain on disposal | - | 4 2 |
| | 17 8 | 32 5 |

## 10 Cash offer for Aegis Group plc from Dentsu Inc

On 12 July 2012 the boards of Aegis and Dentsu Inc ("Dentsu") announced that they had reached agreement on the terms of a recommended cash acquisition by Dentsu of the entire issued and to be issued ordinary share capital of Aegis for 240p per share, valuing Aegis at approximately £3,164 million The price offered by Dentsu was on the basis that Aegis shareholders would not receive any further dividends

On 16 August 2012 shareholders voted to approve the acquisition, which was implemented on 26 March 2013 by way of a court-sanctioned scheme of arrangement of Aegis under Part 26 of the Companies Act 2006, following receipt of antitrust clearances in certain jurisdictions

Transaction costs in relation to the transaction, including professional fees and accounting charges recognised in the year in relation to the accelerated vesting of share schemes, total £44 5m and are included in operating costs in the income statement

Certain group facilities contain change of control provisions which allow lenders to seek repayment upon change of control These provisions were triggered when the Dentsu offer became effective on 26 March 2013 The provisions are in place under the Private Placement Debts, the multi-currency facility, the convertible bond and the term loan (see note 20) Dentsu will provide sufficient liquidity to prepay all Private Placement Debts The banks have agreed to maintain their commitments for the multi-currency facility and the term loan to their original stated maturities

## 11 Dividends

| | 2012 | 2011 |
|---|---|---|
| **Ordinary shares** | | |
| **Dividend rate per share for the period (pence)** | - | 20 28 |
| **Declared and paid during the period** | **£m** | £m |
| Final dividend for 2010 of 1 725p per share | - | 22 2 |
| Interim dividend for 2011 of 1 08p per share | - | 13 9 |
| Special dividend for 2011 of 15 53p per share | - | 200 0 |
| Final dividend for 2011 of 2 01p per share | 23 5 | - |
| | 23 5 | 236 1 |
| **Proposed but not yet declared or paid at the balance sheet date** | **£m** | £m |
| Final dividend for 2011 of 2 01p per share | - | 23 5 |
| | - | 23 5 |

The employee share trust has an ongoing arrangement with the Group to waive all dividends As a result, the total cash paid in settlement of the final dividend for 2011 was £23 1m

Following the announcement of the offer for Aegis Group plc by Dentsu Inc on 12 July 2012, and the subsequent acceptance of the scheme by shareholders on 16 August 2012, no further dividends are proposed

The 2011 special dividend was combined with a 10 for 11 consolidation of Aegis Group plc ordinary shares The interim dividend for 2011 is equivalent to 1 19p per share on a post consolidation basis, and the special dividend for 2011 is equivalent to 17 08p per share on a post-consolidation basis

# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

## 12 Earnings per share

| | 2012 | 2011 |
|---|---|---|
| **Profit for the period** | | |
| Continuing Operations | | |
| Profit for the period from continuing operations attributable to equity holders of the parent for the calculation of basic and diluted EPS excluding Dentsu transaction costs (£m) | 53 3 | 79 6 |
| Adjusting items relating to Dentsu transaction (£m) | (100 6) | - |
| Loss for the period from continuing operations attributable to equity holders of the parent for the calculation of basic and diluted EPS (£m) | (47 3) | 79 6 |
| Total Group | | |
| Profit for the period from continuing operations attributable to equity holders of the parent for the calculation of basic and diluted EPS excluding Dentsu transaction costs (£m) | 53 3 | 164 1 |
| Adjusting items relating to Dentsu transaction (£m) | (100 6) | - |
| Loss for the period attributable to equity holders of the parent for the calculation of basic and diluted EPS (£m) | (47 3) | 164 1 |
| **Weighted average number of ordinary shares (millions)** | | |
| Basic weighted average number of ordinary shares | 1,151 3 | 1,223 1 |
| Dilutive potential ordinary shares employee share options | 1 4 | 1 2 |
| Diluted weighted average number of ordinary shares for statutory diluted EPS | 1,152 7 | 1,224 3 |
| **Continuing Operations** | | |
| Basic earnings per share from continuing operations (pence) excluding Dentsu transaction costs | 4 6 | 6 5 |
| Diluted earnings per share from continuing operations (pence) excluding Dentu transaction costs | 4 6 | 6 5 |
| Basic earnings per share from continuing operations (pence) | (4 1) | 6 5 |
| Diluted earnings per share from continuing operations (pence) | (4 1) | 6 5 |
| **Full Group** | | |
| Basic earnings per share from continuing operations (pence) excluding Dentsu transaction costs | 4 6 | 13 4 |
| Diluted earnings per share from continuing operations (pence) excluding Dentu transaction costs | 4 6 | 13 0 |
| Basic earnings per share from continuing operations (pence) | (4 1) | 13 4 |
| Diluted earnings per share from continuing operations (pence) | (4 1) | 13 0 |

The calculation of basic and diluted earnings per share is based on profit after tax and non-controlling interests The weighted average number of shares excludes the Group's interest in own shares held through an employee share trust

On 20 April 2010 the Group issued £190 6m convertible bonds due April 2015, bearing interest at 2 5%

## 13 Goodwill

| Cost | £m |
|---|---|
| At 1 January 2011 | 1,367 0 |
| Additions | 146 7 |
| Other acquisition adjustments | 1 1 |
| Adjustments to prior period estimates of deferred consideration | 4 9 |
| Disposal of subsidiaries | (395 5) |
| Exchange differences | (18 6) |
| At 31 December 2011 | 1,105 6 |
| Additions | 285 7 |
| Other acquisition adjustments | 10 8 |
| Adjustments to prior period estimates of deferred consideration | 1 3 |
| Exchange differences | (35 6) |
| At 31 December 2012 | 1,367 8 |

| Accumulated impairment losses | |
|---|---|
| At 1 January 2011 | 35 9 |
| Impairment losses for the year | - |
| At 31 December 2011 | 35 9 |
| Impairment losses for the year | 7 6 |
| At 31 December 2012 | 43 5 |

| Carrying amount | £m |
|---|---|
| At 31 December 2012 | 1,324 3 |
| At 31 December 2011 | 1,069 7 |

The adjustments to prior period estimates of deferred consideration shown above relate to acquisitions completed prior to 1 January 2010, which continue to be accounted for under IFRS 3 (2004) Therefore such changes in estimate affect goodwill rather than profit or loss

Other acquisition adjustments of £10 8m include adjustments made during the measurement period to the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date in accordance with IFRS 3

## 13 Goodwill (continued)

Goodwill is allocated for impairment testing purposes to cash generating units (CGUs) which reflects how it is monitored for internal management purposes This allocation largely represents the geographic areas of operation for Aegis Media and the global Aztec business as set out below

| | 2012 £m | 2011 £m |
|---|---|---|
| Aegis Media EMEA | 461 4 | 415 6 |
| Aegis Media Americas | 338 2 | 205 7 |
| Aegis Media Asia Pacific | 474 0 | 393 6 |
| Aegis Media | 1,273 6 | 1,014 9 |
| Other | 50 7 | 54 8 |
| Total | 1,324 3 | 1,069 7 |

The recoverable amount of a CGU is determined based on value-in-use calculations The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next year and management forecasts for the subsequent three years These calculations reflect management's experience and future expectations of the markets in which the CGU operates Long term average growth rates used in the projections range between 3 0% (for mature markets) and 5 0% (for higher growth markets) and vary with management's view of the CGU's market position and maturity of the relevant market The pre-tax rate used to discount the forecast cash flows is 13 1% for mature markets and 14 1% for the developing markets in Asia Pacific

Expected future cash flows are inherently uncertain and could materially change over time They are significantly affected by a number of factors such as market growth, discount rates and currency exchange rates

## Notes to the consolidated financial statements (continued)
For the year ended 31 December 2012

### 14 Intangible assets

| | Software | Customer Relationships | Non-compete Agreements | Intellectual Property | Other | Total |
|---|---|---|---|---|---|---|
| **Cost** | **£m** | **£m** | **£m** | **£m** | **£m** | **£m** |
| **At 1 January 2011** | **49 9** | **97 3** | **23 4** | **18 3** | **51 7** | **240 6** |
| Additions | | | | | | |
| - separately acquired | 10 0 | - | - | - | 2 2 | 12 2 |
| - internally generated | 1 2 | - | - | - | 0 2 | 1 4 |
| Acquired on acquisition of a subsidiary | 2 6 | 59 9 | 19 9 | 1 3 | 7 4 | 91 1 |
| Disposals and assets retired | (2 2) | (1 5) | - | (0 1) | (6 3) | (10 1) |
| Disposal of subsidiaries | (17 5) | (19 7) | (5 1) | (2 6) | (16 9) | (61 8) |
| Transfers and other movements | - | (0 1) | - | 2 2 | (2 6) | (0 5) |
| Exchange differences | (1 6) | (2 8) | (1 0) | - | (1 0) | (6 4) |
| **At 31 December 2011** | **42 4** | **133 1** | **37 2** | **19 1** | **34 7** | **266 5** |
| Additions | | | | | | |
| - separately acquired | 6 7 | - | - | - | 1 2 | 7 9 |
| - internally generated | 10 9 | - | - | - | 0 9 | 11 8 |
| Acquired on acquisition of a subsidiary | 0 3 | 88 5 | 15 3 | 5 5 | 4 7 | 114 3 |
| Disposals and assets retired | (4 4) | (12 1) | (13 1) | (2 3) | (20 6) | (52 5) |
| Transfers and other movements | 0 9 | - | - | - | (0 4) | 0 5 |
| Exchange differences | (1 0) | (4 2) | (1 3) | (0 6) | (1 0) | (8 1) |
| **At 31 December 2012** | **55 8** | **205 3** | **38 1** | **21 7** | **19 5** | **340 4** |
| | | | | | | |
| **Amortisation** | | | | | | |
| **At 1 January 2011** | **38 3** | **39 9** | **13 1** | **4 6** | **32 2** | **128 1** |
| Acquired on acquisition of a subsidiary | 2 1 | - | - | - | - | 2 1 |
| Charge for the year | 7 1 | 22 3 | 6 4 | 5 4 | 6 1 | 47 3 |
| Disposals and assets retired | (2 2) | (1 5) | - | (0 1) | (6 2) | (10 0) |
| Disposal of subsidiaries | (11 7) | (10 5) | (0 4) | (2 0) | (13 1) | (37 7) |
| Transfers and other movements | (0 8) | - | - | 1 5 | (0 7) | - |
| Exchange differences | (1 2) | (0 4) | (0 3) | 0 1 | (0 9) | (2 7) |
| **At 31 December 2011** | **31 6** | **49 8** | **18 8** | **9 5** | **17 4** | **127 1** |
| Acquired on acquisition of a subsidiary | 0 1 | - | - | - | 0 2 | 0 3 |
| Charge for the year | 5 4 | 33 6 | 5 8 | 6 0 | 7 2 | 58 0 |
| Disposals and assets retired | (4 5) | (12 1) | (13 1) | (2 3) | (20 5) | (52 5) |
| Impairment, transfers and other movements | 0 9 | (2 4) | - | - | 2 4 | 0 9 |
| Exchange differences | (0 8) | (1 7) | (0 5) | (0 4) | (0 3) | (3 7) |
| **At 31 December 2012** | **32 7** | **67 2** | **11 0** | **12 8** | **6 4** | **130 1** |
| | | | | | | |
| **Carrying amount** | | | | | | |
| **At 31 December 2012** | **23 1** | **138 1** | **27 1** | **8 9** | **13 1** | **210 3** |
| | | | | | | |
| At 31 December 2011 | 10 8 | 83 3 | 18 4 | 9 6 | 17 3 | 139 4 |

The carrying amount of other intangible assets includes patents and trademarks of £5 0m (2011 £5 3m) and other intangibles of £8 1m (2011 £12 0m) All intangible assets included above have been subject to amortisation in the year

## Notes to the consolidated financial statements (continued)
For the year ended 31 December 2012

### 15 Property, plant and equipment

| | Freehold land and buildings | Long leasehold and leasehold improvements | Office furniture, fixtures, equipment and vehicles | Total |
|---|---|---|---|---|
| **Cost** | £m | £m | £m | £m |
| At 1 January 2011 | 2 9 | 65 1 | 146 0 | 214 0 |
| Additions | 0 5 | 17 3 | 17 0 | 34 8 |
| Acquired on acquisition of a subsidiary | 0 3 | 0 5 | 3 8 | 4 6 |
| Disposals and assets retired | (0 2) | (5 2) | (25 1) | (30 5) |
| Disposal of subsidiaries | (2 4) | (17 0) | (45 2) | (64 6) |
| Transfers and other movements | - | (1 0) | 1 3 | 0 3 |
| Exchange differences | - | (1 2) | (3 4) | (4 6) |
| **At 31 December 2011** | 1 1 | 58 5 | 94 4 | 154 0 |
| Additions | - | 19 5 | 19 8 | 39 3 |
| Acquisitions of subsidiaries | 0 1 | 0 9 | 2 0 | 3 0 |
| Disposals and assets retired | - | (7 1) | (9 5) | (16 6) |
| Transfers and other movements | (0 3) | 0 8 | (1 0) | (0 5) |
| Exchange differences | - | (1 5) | (2 4) | (3 9) |
| **At 31 December 2012** | 0 9 | 71 1 | 103 3 | 175 3 |
| | | | | |
| **Accumulated depreciation** | | | | |
| At 1 January 2011 | 1 2 | 41 0 | 109 9 | 152 1 |
| Acquisitions of subsidiaries | - | 0 5 | 3 2 | 3 7 |
| Charge for the year | 0 1 | 7 6 | 15 8 | 23 5 |
| Disposals and assets retired | (0 2) | (3 8) | (23 6) | (27 6) |
| Disposal of subsidiaries | (1 0) | (9 9) | (35 8) | (46 7) |
| Transfers and other movements | - | (0 2) | 0 2 | - |
| Exchange differences | - | (1 0) | (2 7) | (3 7) |
| **At 31 December 2011** | 0 1 | 34 2 | 67 0 | 101 3 |
| Acquisitions of subsidiaries | - | 0 3 | 0 9 | 1 2 |
| Charge for the year | - | 6 0 | 13 1 | 19 1 |
| Disposals and assets retired | - | (6 9) | (8 8) | (15 7) |
| Impairment, transfers and other movements | 0 1 | 0 5 | (0 6) | - |
| Exchange differences | 0 1 | (0 9) | (1 7) | (2 5) |
| **At 31 December 2012** | 0 3 | 33 2 | 69 9 | 103 4 |
| | | | | |
| **Carrying amount** | | | | |
| **At 31 December 2012** | 0 6 | 37 9 | 33 4 | 71 9 |
| | | | | |
| At 31 December 2011 | 1 0 | 24 3 | 27 4 | 52 7 |

At 31 December 2012, the Group had £8 2m capital commitments contracted, but not provided, for the acquisition of property, plant and equipment (2011 £21 1m) These commitments arise primarily in relation to leasehold improvements and office furniture and fittings in new premises Proceeds from the disposal of property, plant and equipment, excluding assets disposed as part of the disposal of subsidiaries, are £0 8m (2011 £2 7m)

## 16 Interests in associates and joint ventures

### a) Carrying amount

| | Associates £m | Joint ventures £m | Total £m |
|---|---|---|---|
| At 1 January 2012 | 52 0 | 0 3 | 52 3 |
| Share of results after tax | (0 7) | - | (0 7) |
| Additions | 0 5 | - | 0 5 |
| Step acquisition | (0 4) | - | (0 4) |
| Disposals | (0 6) | - | (0 6) |
| Impairment | (10 0) | - | (10 0) |
| Dividends received | (1 6) | - | (1 6) |
| Exchange differences | 1 1 | - | 1 1 |
| At 31 December 2012 | 40 3 | 0 3 | 40 6 |

Investments in associates at 31 December 2012 include goodwill of £7 2m (2011 £17 8m)

At 31 December 2012, the Group's investment in Charm represented 19 0% (2011 18 9%) of the voting power The Group's direct operating relationship with Charm, including active Board membership, lead to significant influence over the operating and financial policies of Charm Following a reduction in Charm's share price during the year, the Group's interest has been impaired

Losses of £0 1m arising in certain associates have been excluded from the Group share of the result of associates in the current year (2011 £0 2m) since the carrying amount as presented above has been reduced to Nil in previous years The cumulative total of the unrecognised share of losses is £0 7m (2011 £0 6m)

### b) Investments in associates

The following represents the aggregate amount of the Group's interests in associated companies' assets, liabilities, revenue and profit / (loss)

| Group's interests | 2012 £m | 2011 £m |
|---|---|---|
| Total assets | 69 6 | 66 9 |
| Total liabilities | (34 2) | (33 3) |
| | 35 4 | 33 6 |
| Goodwill | 7 2 | 17 8 |
| | 42 6 | 51 4 |
| Total revenue | 26 1 | 38 2 |
| Total (loss) / profit | (0 7) | 4 0 |

## 16 Interests in associates and joint ventures (continued)

### b) Investments in associates (continued)

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

| | 2012<br>£m | 2011<br>£m |
|---|---|---|
| Total assets | 321 1 | 350 9 |
| Total liabilities | (140 0) | (145 2) |
| Total revenue | 133 5 | 210 4 |
| Total profit | 4 4 | 33 5 |

## 17 Available-for-sale financial assets

| | 2012<br>£m | 2011<br>£m |
|---|---|---|
| Equity investments | 2 2 | 4 8 |

The equity investments held at the 2012 year end represent a stake of approximately 2 0% in Harris Interactive Inc , a company listed on the NASDAQ exchange, and a stake of approximately 2 3% in Qin Jia Yuan Media Services, a company listed in Hong Kong, along with a number of smaller unlisted securities The unlisted securities are held by a number of Group companies and represent numerous small investments in private companies

## 18 Trade and other receivables

| | 2012<br>£m | 2011<br>£m |
|---|---|---|
| Trade receivables and accrued income | 2,429 7 | 2,199 6 |
| Prepayments | 64 2 | 73 7 |
| Other receivables | 128 3 | 99 1 |
| | 2,622 2 | 2,372 4 |

## 18 Trade and other receivables (continued)

The average credit period taken for trade receivables is 40 days (2011 39 days) The Directors consider that the carrying amount of trade and other receivables approximates their fair value Trade receivables for the Group are stated net of an allowance for doubtful receivables of £79 4m (2011 £76 9m)

| | £m |
|---|---|
| At 1 January 2011 | 77 7 |
| Provided in the year | 12 3 |
| Disposal of subsidiaries | (3 3) |
| Release of allowance | (4 2) |
| Utilisation of allowance | (3 4) |
| Exchange differences | (2 2) |
| At 1 January 2012 | 76 9 |
| Provided in the year | 10 2 |
| Acquisition of subsidiaries | 0 1 |
| Release of allowance | (1 3) |
| Utilisation of allowance | (4 3) |
| Exchange differences | (2 2) |
| At 31 December 2012 | 79 4 |

As of 31 December 2012, trade receivables of £533 1m (2011 £662 4m) were past due but not impaired The ageing analysis of these receivables is as follows

| | 2012 £m | 2011 £m |
|---|---|---|
| Under 3 months | 470 8 | 591 1 |
| Over 3 months | 62 3 | 71 3 |
| | 533 1 | 662 4 |

## 19 Trade and other payables

| | 2012 £m | 2011 £m |
|---|---|---|
| Trade payables and accruals | 2,692 5 | 2,463 9 |
| Deferred income | 61 1 | 58 3 |
| Taxation and social security | 109 6 | 86 1 |
| Deferred consideration (note 27) | 59 5 | 53 9 |
| Other payables | 339 4 | 286 5 |
| | 3,262 1 | 2,948 7 |

The average credit period taken for trade payables is 39 days (2011 42 days) The Directors consider that the carrying amount of trade payables approximates their fair value

# Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

## 20 Financial instruments

The Group has established objectives concerning the holding and use of financial instruments which are discussed in the directors' report The key objective is to manage the financial risks faced by the Group, which are discussed below Formal policies and guidelines have been set to achieve these objectives and it is the responsibility of Group Treasury to implement these policies using the strategies set out below

The Group manages its capital to enable the entities in the Group to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance The capital structure of the Group consists of debt, which includes the Group's borrowings, cash and cash equivalents, and equity attributable to equity holders of the parent, comprising issued capital and reserves and retained earnings

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

### Management of financial risk

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

### Currency risk

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

The Group's foreign currency management policy requires subsidiaries to hedge all transactions and financial instruments with material currency exposures The Group is party to a number of foreign currency forward contracts in the management of exchange rate exposures The instruments purchased are primarily denominated in the currencies of the Group's principal markets These are held at fair value at the balance sheet date Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted rates matching the maturities of the contracts Movements in the fair value of forward foreign exchange contracts are taken to the income statement The total notional amounts of outstanding forward foreign exchange contracts that the Group has committed are shown below

| | 2012 | 2011 |
|---|---|---|
| | £m | £m |
| Forward foreign exchange contracts - notional principal | 297 7 | 381 9 |

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

When it is aligned with the Group's overall funding strategy, the Group's policy is to borrow locally wherever possible to act as a natural hedge against the translation risk arising from its net investments overseas Where major borrowings are denominated in a currency other than Sterling, the Group may enter into cross-currency swaps to reduce currency risk, as explained later in this note A currency analysis of borrowings and other financial liabilities is given in section g) of this note

## Notes to the consolidated financial statements (continued)
For the year ended 31 December 2012

### 20 Financial instruments (continued)

**Liquidity risk**

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

At 31 December 2012, the Group had net debt (before issue costs of new debt) of £335 9m (2011 £135 5m) The Group had cash and short term deposits of £403 1m at 31 December 2012 (2011 £626 1m) and gross borrowings of £739 0m (2011 £761 6m) The Group's principal debt instruments are subject to certain financial covenants

The following unsecured loan notes are included within gross borrowings

| Date of issue | Date repayable | 2012 $m | 2012 £m | 2011 $m | 2011 £m |
|---|---|---|---|---|---|
| 28 July 2005 | 2015 - 2017 | 183 0 | 112 7 | 342 0 | 220 5 |
| 17 September 2007 | 2014 - 2017 | 125 0 | 77 0 | 125 0 | 80 6 |
| 17 December 2009 | 2017 | - | 25 0 | - | 25 0 |
| 17 December 2009 | 2017 - 2019 | 183 0 | 112 7 | 183 0 | 118 0 |

At 31 December 2012, the Group has undrawn committed facilities of £450 0m (2011 £450 0m)

**Interest rate risk**

The Group's unsecured loan notes, referred to above, are at fixed rates All other borrowings are at floating rates Certain portions of the Group's unsecured loan notes are subject to interest rate swaps, as explained later in this note

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

**Credit Risk**

The Group's credit risk is primarily attributable to its trade receivables and cash balances The amounts presented in the balance sheet in respect of trade receivables are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment Trade credit risk is managed in each territory through the use of credit checks on new clients and individual credit limits, where considered necessary In some instances clients are required to pay for media in advance

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet

**Current receivables and payables and currency disclosures**

Due to the nature of the operations of the business, Group companies are able to match current receivables and payables in currencies other than their functional currency and therefore do not have material, unhedged monetary assets and liabilities Current receivables and payables are therefore excluded from currency analyses provided in this note

## 20 Financial instruments (continued)

### Private Placement Debt – July 2005

On 28 July 2005, the Group issued US$342m of unsecured loan notes, repayable in 2012, 2015 and 2017 The interest rates applicable on these loan notes range from 5 25% to 5 65% During the year, US$159m of the loan notes were repaid The Group has outstanding loan notes of US$183m, repayable between 2015 and 2017, with applicable interest rates ranging between 5 50% to 5 65% as at 31 December 2012 These loan notes are guaranteed by the Company and certain of its subsidiaries On 9 November 2005 cross currency swaps were entered into for US$142m of the loan notes due in 2012 and US$50m of the loan notes due in 2015 to convert this US$ fixed rate borrowing into Euro fixed rate borrowing The remaining US$150m of loan notes were used to provide a natural hedge against US dollar-denominated assets

### Private Placement Debt – September 2007

On 17 September 2007, the Group issued US$125m of unsecured loan notes repayable between 2014 and 2017 The interest rates applicable on these loan notes range from 6 06% to 6 29% These loan notes are guaranteed by the Company and certain of its subsidiaries

### Term loan – July 2009

In July 2009 the Group secured a loan of £45m available until July 2011 at a variable interest rate In July 2011, the facility was increased to £60m with a fixed interest rate The loan is repayable in 2014

### Private Placement Debt – December 2009

On 17 December 2009, the Group issued US$183m and £25m of unsecured loan notes repayable between 2017 and 2019 The interest rates applicable on these loan notes range from 6 07% to 6 50% These loan notes are guaranteed by the Company and certain of its subsidiaries On 17 November 2009, an interest rate swap was entered into for US$50m of the loan notes due in 2019 to convert the US$ fixed rate debt to US$ floating rate debt On 17 November 2009, cross currency interest rate swaps were entered into for US$18m of the loan notes due in 2017 and US$115m of the loan notes due in 2019 to convert the US$ fixed rate borrowing to GBP floating rate borrowing From 19 January 2010, US$50m of the loan note was designated as a net investment hedge against US dollar-denominated investments To the extent that this hedging relationship was effective, exchange differences arising on the re-translation of the US$50m of debt was taken to reserves

### Multi-currency credit facility – July 2010

In July 2010, the Group re-financed the five year £450m multi-currency credit facility with a group of international banks, which was originally entered into in June 2006 The facility is committed and revolving and allows drawings under a variety of currencies Pricing is based on the inter-bank rate of the relevant currency for the corresponding period of the drawing with the interest margin determined by reference to a grid based on the consolidated net borrowings to consolidated net EBITDA ratio The facility is unsecured but guaranteed by the Company and certain of its subsidiaries until July 2015

### Convertible bond

The Group issued £190 6m convertible bonds in April 2010, due for repayment in April 2015 The convertible bonds bear interest at 2 5% per annum and are convertible at the option of the holder into Aegis ordinary shares at an exchange price of £1 5927 (2011 £1 6129) The total number of ordinary shares that would be issued if all bonds converted would be 119 7 million (2011 118 2 million)

As a compound financial instrument, the net proceeds of the bond were split into a liability component and an equity component on the issue date, and at 31 December 2012 the carrying value of the liability, net of deferred issue costs, is £177 9m

## 20 Financial instruments (continued)

### Cross currency swap

The fair value of the cross currency swap at 31 December 2012 is £(3 3)m (2011 £(11 4)m) The fair value is based on a discounted cash flow model and market interest yield curves applicable and represents movements in the Euro/US$ foreign exchange spot rate and in Euro and US$ interest rate yields The cross currency swap is synthetically split, for accounting purposes, to reflect the Group's presentational currency of Sterling The US$/Sterling leg of the swap is designated and effective as a cash flow hedge against the Group's US$ loan notes Movements in the fair value of the US$/Sterling leg of the swap are taken to reserves and released to the income statement when the underlying portion of US$ loan notes interest is recognised in the income statement every six months The Euro/Sterling leg of the swap is designated as net investment hedge in respect of certain of the Group's Euro-denominated investments To the extent that this hedging relationship is effective, exchange differences arising on the re-translation of the swapped Euro debt are taken to reserves

In July 2012, one tranche of the unsecured loan notes of US$159m and the associated US$142m cross currency swap matured and was settled As a result, hedge accounting for this portion of the swap was applied up to the date of settlement of the swap

### Interest rate swap

The fair value of the interest rate swap at 31 December 2012 is £4 4m (2011 £3 9m) The fair value is based on a discounted cash flow model and market interest yield curves applicable and represents unrecognised gains which the Group expects to realise as a result of lower or higher variable interest payments under the swap compared with the fixed interest rate applicable on the underlying loan notes The interest rate swap is designated and effective as fair value hedges against changes in the fair value of the debt caused by changes in interest rates Movements in the fair value of the interest rate swap are taken to the income statement where they offset against very similar but opposite movements in the fair value of the debt caused by movements in interest rates

### Cross currency interest rate swaps

The fair value of the cross currency interest rate swaps at 31 December 2012 is £13 5m (2011 £16 2m) The fair value is based on a discounted cash flow model and market yield curves applicable and represents movements in the Sterling/US$ foreign exchange spot rate and in Sterling and US$ interest rate yields Movements in the fair value of the cross currency interest rate swaps excluding the credit spread are taken to the income statement where they offset against opposite movements in the fair value of the US$ loan notes caused by changes in interest rates and foreign exchange spot rates Movements in the fair value of the cross currency interest rate swaps relating to the credit spread are taken to reserves and released to the income statement when the underlying portion of US$ loan notes interest is recognised in the income statement

### Covenants

The Group's leverage covenant (net debt/EBITDA) was 1 3 times (compared to a covenant requirement of <3 times) (2011 0 5 times) and interest cover covenant (EBITDA/net interest) was 8 3 times (compared to a covenant requirement >4 time) (2011 7 7 times) at 31 December 2012

### Change of control

Certain group facilities contain change of control provisions which allow lenders to seek repayment upon change of control These provisions were triggered when the Dentsu offer became effective on 26 March 2013 The provisions are in place under the Private Placement Debts, the multi-currency facility, the convertible bond and the term loan Dentsu will provide sufficient liquidity to prepay all Private Placement Debts The banks have agreed to maintain their commitments for the multi-currency facility and the term loan to their original stated maturities As explained in the scheme document published on 23rd July 2013, the prepayment of private placement debts must include a 'make-whole' amount to compensate note-holders for lost interest The make-whole amount is calculated by determining the present value of the interest and principal that would be payable on the notes through their originally stated maturity

## 20 Financial instruments (continued)

### a) Categories of financial instruments

| | Carrying value 2012 £m | Carrying value 2011 £m |
|---|---|---|
| **Financial Assets** | | |
| Fair value through profit and loss (FVTPL) | | |
| - Held for trading | 0 5 | 2 3 |
| Held to maturity investments | 0 1 | 0 1 |
| Derivative instruments in designated hedge accounting relationships | 17 9 | 20 1 |
| Available-for-sale financial assets | 2 2 | 4 8 |
| Cash and short-term deposits | 403 1 | 626 1 |
| Trade receivables and other financial assets | 1,969 9 | 1,912 8 |
| **Total financial assets** | 2,393 7 | 2,566 2 |
| **Financial Liabilities** | | |
| Fair value through profit and loss (FVTPL) | | |
| - Held for trading | 1 5 | 2 3 |
| - Acquisition put option derivatives | 10 4 | 14 4 |
| Derivative instruments in designated hedge accounting relationships | 3 3 | 11 4 |
| Borrowings | 735 0 | 754 5 |
| Trade payables and other financial liabilities | 2,264 8 | 2,228 3 |
| **Total financial liabilities** | 3,015 0 | 3,010 9 |

Trade receivables and other financial assets are held at amortised cost and include these items of trade and other receivables that meet the definition of financial assets

Trade payables and other financial liabilities are held at amortised cost and include these items of trade and other payables that meet the definition of financial liabilities

20 Financial instruments (continued)

b) Maturity profile of Group financial assets and liabilities

Financial assets

| 2012 | Less than 1 year | 1-2 years | 2-5 years | More than 5 years | No fixed maturity | Total |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| Current | | | | | | |
| Cash and short-term deposits | 403 1 | - | - | - | - | 403 1 |
| Derivative financial assets | | | | | | |
| - Forward foreign exchange contracts | 0 5 | - | - | - | - | 0 5 |
| | 403 6 | - | - | - | - | 403 6 |
| Trade receivables and other financial assets | 1,969 1 | - | - | - | - | 1,969 1 |
| Total current | 2,372 7 | - | - | - | - | 2,372 7 |
| Non-current | | | | | | |
| Available for sale financial assets | - | - | - | - | 2 2 | 2 2 |
| Derivative financial assets | | | | | | |
| - Interest rate swap | - | - | - | 4 4 | - | 4 4 |
| - Cross currency interest rate swaps | - | - | 1 5 | 12 0 | - | 13 5 |
| Other financial assets | - | - | - | 0 1 | 0 8 | 0 9 |
| Total non-current | - | - | 1 5 | 16 5 | 3 0 | 21 0 |
| Total | 2,372 7 | - | 1 5 | 16 5 | 3 0 | 2,393 7 |

| 2011 | Less than 1 year | 1-2 years | 2-5 years | More than 5 years | No fixed maturity | Total |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| Current | | | | | | |
| Cash and short-term deposits | 626 1 | - | - | - | - | 626 1 |
| Derivative financial assets | | | | | | |
| - Forward foreign exchange contracts | 2 3 | - | - | - | - | 2 3 |
| | 628 4 | - | - | - | - | 628 4 |
| Trade receivables and other financial assets | 1,912 2 | - | - | - | - | 1,912 2 |
| Total current | 2,540 6 | - | - | - | - | 2,540 6 |
| Non-current | | | | | | |
| Available for sale financial assets | - | - | - | - | 4 8 | 4 8 |
| Derivative financial assets | | | | | | |
| - Interest rate swap | - | - | - | 16 2 | - | 16 2 |
| - Cross currency interest rate swaps | - | - | - | 3 9 | - | 3 9 |
| Other financial assets | - | - | - | - | 0 7 | 0 7 |
| Total non-current | - | - | - | 20 1 | 5 5 | 25 6 |
| Total | 2,540 6 | - | - | 20 1 | 5 5 | 2,566 2 |

There are no material differences between the recorded and fair values of the Group's financial assets at 31 December 2012 The fair values of financial assets reflect market values or are based upon readily available market data

20 Financial instruments (continued)

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

Financial liabilities

2012

| | Less than 1 year £m | 1-2 years £m | 2-5 years £m | More than 5 years £m | Total £m |
|---|---|---|---|---|---|
| Current | | | | | |
| Bank overdrafts | 20 8 | - | - | - | 20 8 |
| Bank loans | 100 5 | - | - | - | 100 5 |
| Loan notes | 4 3 | - | - | - | 4 3 |
| | 125 6 | - | - | - | 125 6 |
| Less Issue costs of debt to be amortised | (1 6) | - | - | - | (1 6) |
| | 124 0 | - | - | - | 124 0 |
| Derivative financial liabilities | | | | | |
| - Forward foreign exchange contracts | 1 5 | - | - | - | 1 5 |
| - Put option liabilities | 2 1 | - | - | - | 2 1 |
| | 127 6 | - | - | - | 127 6 |
| Deferred consideration | 59 5 | - | - | - | 59 5 |
| Trade payables and other financial liabilities | 1,941 8 | - | - | - | 1,941 8 |
| Total current | 2,128 9 | - | - | - | 2,128 9 |
| Non-current | | | | | |
| Bank loans | - | 73 1 | 18 4 | - | 91 5 |
| Loan notes | - | 46 2 | 180 6 | 115 2 | 342 0 |
| Convertible bond | - | - | 179 9 | - | 179 9 |
| | - | 119 3 | 378 9 | 115 2 | 613 4 |
| Less Issue costs of debt to be amortised | - | (1 7) | (0 7) | - | (2 4) |
| | - | 117 6 | 378 2 | 115 2 | 611 0 |
| Derivative financial liabilities | | | | | |
| - Cross currency swaps | - | - | 3 3 | - | 3 3 |
| - Put option liabilities | - | 0 3 | 5 4 | 2 6 | 8 3 |
| Deferred consideration | - | 66 6 | 187 5 | 0 7 | 254 8 |
| Other non-current liabilities | - | 1 5 | 1 3 | 5 9 | 8 7 |
| Total non-current | - | 186 0 | 575 7 | 124 4 | 886 1 |
| Total | 2,128 9 | 186 0 | 575 7 | 124 4 | 3,015 0 |

## 20 Financial instruments (continued)

### b) Maturity profile of Group financial assets and liabilities (continued)

### Financial liabilities

2011

| | Less than 1 year £m | 1-2 years £m | 2-5 years £m | More than 5 years £m | Total £m |
|---|---|---|---|---|---|
| **Current** | | | | | |
| Bank overdrafts | 8 9 | - | - | - | 8 9 |
| Bank loans | 19 9 | - | - | - | 19 9 |
| Loan notes | 109 4 | - | - | - | 109 4 |
| | 138 2 | - | - | - | 138 2 |
| Less Issue costs of debt to be amortised | (2 0) | - | - | - | (2 0) |
| | 136 2 | - | - | - | 136 2 |
| Derivative financial liabilities | | | | | |
| - Forward foreign exchange contracts | 2 3 | - | - | - | 2 3 |
| - Cross currency swaps | 8 9 | - | - | - | 8 9 |
| - Put option liabilities | 3 6 | - | - | - | 3 6 |
| | 151 0 | - | - | - | 151 0 |
| Deferred consideration | 53 9 | - | - | - | 53 9 |
| Trade payables and other financial liabilities | 2,040 9 | - | - | - | 2,040 9 |
| **Total current** | **2,245 8** | - | - | - | **2,245 8** |
| **Non-current** | | | | | |
| Bank loans | - | 18 5 | 75 9 | - | 94 4 |
| Loan notes | - | - | 124 4 | 229 4 | 353 8 |
| Convertible bond | - | - | 175 2 | - | 175 2 |
| | - | 18 5 | 375 5 | 229 4 | 623 4 |
| Less Issue costs of debt to be amortised | - | (1 8) | (2 9) | (0 4) | (5 1) |
| | - | 16 7 | 372 6 | 229 0 | 618 3 |
| Derivative financial liabilities | | | | | |
| - Cross currency swaps | - | - | 2 5 | - | 2 5 |
| - Put option liabilities | - | 2 9 | 4 8 | 3 1 | 10 8 |
| Deferred consideration | - | 29 4 | 91 2 | 7 8 | 128 4 |
| Other non-current liabilities | - | 2 5 | 0 3 | 2 3 | 5 1 |
| **Total non-current** | - | **51 5** | **471 4** | **242 2** | **765 1** |
| **Total** | **2,245 8** | **51 5** | **471 4** | **242 2** | **3,010 9** |

## 20 Financial instruments (continued)

### c) Valuation of financial assets and liabilities

Except as detailed in the following table, the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements are approximately equal to their fair values

| | 2012<br>Fair value<br>£m | 2012<br>Carrying value<br>£m | 2011<br>Fair value<br>£m | 2011<br>Carrying value<br>£m |
|---|---|---|---|---|
| 2005 loan notes | 112 7 | 115 3 | 220 6 | 225 6 |
| 2007 loan notes | 77 0 | 78 3 | 80 6 | 82 0 |
| 2009 loan notes | 137 7 | 138 0 | 143 0 | 143 4 |
| Total | 327 4 | 331 6 | 444 2 | 451 0 |

In July 2012, one tranche of the 2005 loan notes of US$159m matured and was settled

**Valuation techniques and assumptions applied for the purposes of measuring fair value**

The fair values of financial assets and financial liabilities are determined as follows

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes held-to-maturity investments and quoted available-for-sale investments)
- The fair values of derivative instruments, other than put options over acquisition of minorities, are calculated using quoted prices and yield curves derived from these quoted prices
- The fair values of put option liabilities and deferred consideration are calculated as the best estimate of the gross cash expected to be paid discounted to present value

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly (i e as prices) or indirectly (i e derived from prices), and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset of liability that are not based on observable market data (unobservable inputs)

## Notes to the consolidated financial statements (continued)
For the year ended 31 December 2012

### 20 Financial instruments (continued)

### c) Valuation of financial assets and liabilities (continued)

| 2012 | Level 1 £m | Level 2 £m | Level 3 £m | Carrying value 2012 £m |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Fair value through profit and loss (FVTPL) | | | | |
| - Held for trading | - | 0 5 | - | 0 5 |
| Derivative instruments in designated hedge accounting relationships | - | 17 9 | - | 17 9 |
| Held to maturity investments | 0 1 | - | - | 0 1 |
| Available-for-sale financial assets - quoted | 0 8 | - | - | 0 8 |
| **Total financial assets measured at fair value** | 0 9 | 18 4 | - | 19 3 |
| **Financial liabilities** | | | | |
| Fair value through profit and loss (FVTPL) | | | | |
| - Held for trading | - | (1 5) | - | (1 5) |
| - Acquisition put option derivatives | - | - | (10 4) | (10 4) |
| Derivative instruments in designated hedge accounting relationships | - | (3 3) | - | (3 3) |
| Deferred consideration | - | - | (314 3) | (314 3) |
| **Total financial liabilities measured at fair value** | - | (4 8) | (324 7) | (329 5) |

| 2011 | Level 1 £m | Level 2 £m | Level 3 £m | Carrying value 2011 £m |
|---|---|---|---|---|
| Financial assets | | | | |
| Fair value through profit and loss (FVTPL) | | | | |
| - Held for trading | - | 2 3 | - | 2 3 |
| Derivative instruments in designated hedge accounting relationships | - | 20 1 | - | 20 1 |
| Held to maturity investments | 0 1 | - | - | 0 1 |
| Available-for-sale financial assets - quoted | 3 7 | - | - | 3 7 |
| Total financial assets measured at fair value | 3 8 | 22 4 | - | 26 2 |
| Financial liabilities | | | | |
| Fair value through profit and loss (FVTPL) | | | | |
| - Held for trading | - | (2 3) | - | (2 3) |
| - Acquisition put option derivatives | - | - | (14 4) | (14 4) |
| Derivative instruments in designated hedge accounting relationships | - | (11 4) | - | (11 4) |
| Deferred consideration | - | - | (182 3) | (182 3) |
| Total financial liabilities measured at fair value | - | (13 7) | (196 7) | (210 4) |

There were no transfers between categories during 2012 or 2011

20 Financial instruments (continued)

**d) Analysis of derivative financial instruments**

A reconciliation of the movements in the calculated fair value of put option derivatives is provided below

| | 2012<br>£m | 2011<br>£m |
|---|---|---|
| Balance at 1 January | (14 4) | (34 5) |
| Put options issued | (1 1) | (23 6) |
| Put options settled and lapsed | 3 4 | 21 2 |
| Put options extinguished on disposal of subsidiaries | - | 20 6 |
| Revisions of estimated fair value recognised in the income statement | 0 6 | 0 9 |
| Exchange differences | 1 1 | 1 0 |
| Balance at 31 December | (10 4) | (14 4) |

An increase of 1% in the rate used to discount the expected gross value of payments would lead to a decrease in the recorded liability of £0 3m

A reconciliation of the movements in the calculated fair value of deferred consideration is provided below

| | 2012<br>£m | 2011<br>£m |
|---|---|---|
| Balance at 1 January | (182 3) | (63 7) |
| Deferred consideration created | (215 1) | (173 6) |
| Deferred consideration settled | 59 2 | 46 5 |
| Revisions of estimated fair value | 16 9 | 4 4 |
| Exchange differences | 7 0 | 4 1 |
| Balance at 31 December | (314 3) | (182 3) |

An increase of 1% in the rate used to discount the expected gross value of payments would lead to a decrease in the recorded liability of £6 1m

Fair value is calculated based on the discounted value of expected future payments Subsequent changes in the fair value of the liability are recognised in the income statement

## 20 Financial instruments (continued)

| | Current 2012 £m | Non current 2012 £m | Current 2011 £m | Non current 2011 £m |
|---|---|---|---|---|
| **Derivative liabilities that are designated and effective as hedging instruments carried at fair value** | | | | |
| Cross currency swaps | - | (3 3) | (8 9) | (2 5) |
| **Derivative liabilities carried at fair value through profit and loss** | | | | |
| Forward foreign currency contracts | (1 5) | - | (2 3) | - |
| Put option liabilities | (2 1) | (8 3) | (3 6) | (10 8) |
| **Derivative assets that are designated and effective as hedging instruments carried at fair value** | | | | |
| Cross currency interest rate swaps | - | 13 5 | - | 16 2 |
| Interest rate swap | - | 4 4 | - | 3 9 |
| **Derivative assets carried at fair value through profit and loss** | | | | |
| Forward foreign currency contracts | 0 5 | - | 2 3 | - |
| | (3 1) | 6 3 | (12 5) | 6 8 |

Loans and receivables are discussed in this note and note 18, and available-for-sale financial assets are disclosed in note 17 All other financial instruments are held at amortised cost except for derivative financial instruments which are held for trading at fair value through profit and loss

### e) Analysis of hedge effectiveness

| | 2012 £m | 2011 £m |
|---|---|---|
| **Cash flow hedges** | | |
| Amount recognised in other comprehensive income during the period | (4 5) | (0 8) |
| Reclassified from other comprehensive income to profit or loss during the period | 1 7 | (0 7) |
| | (2 8) | (1 5) |
| **Fair value hedges** | | |
| Fair value movement arising on derivatives in a designated fair value hedge | 2 6 | 11 2 |
| Adjustment to hedged items in a designated fair value hedge | (2 6) | (11 1) |
| | - | 0 1 |

Ineffectiveness recognised in the income statement that arises from cash flow hedges and fair value hedges was £Nil and £0 1m in the current and prior year respectively No ineffectiveness arises from the Group's hedges of net investments in foreign operations

## Notes to the consolidated financial statements (continued)

For the year ended 31 December 2012

### 20 Financial instruments (continued)

#### f) Maturity analysis

The maturity profile of the anticipated future cash flows (including interest but excluding trade and other payables meeting the definition as financial liabilities are excluded) in relation to the Group's non-derivative financial liabilities, on an undiscounted basis and which, therefore, differ from both the carrying value and fair value, is as follows

| | 2012 External loans £m | 2012 Other liabilities £m | 2012 Total £m | 2011 External loans £m | 2011 Other liabilities £m | 2011 Total £m |
|---|---|---|---|---|---|---|
| Less than 1 year | 153 8 | 60 7 | 214 5 | 165 7 | 54 5 | 220 2 |
| 1-2 years | 146 8 | 70 1 | 216 9 | 49 7 | 32 8 | 82 5 |
| 2-5 years | 430 1 | 206 1 | 636 2 | 455 2 | 99 5 | 554 7 |
| More than 5 years | 114 5 | 6 9 | 121 4 | 242 8 | 11 3 | 254 1 |
| | 845 2 | 343 8 | 1,189 0 | 913 4 | 198 1 | 1,111 5 |
| Effect of discount / financing rates | (267 4) | (19 5) | (286 9) | (317 8) | (10 0) | (327 8) |
| | 577 8 | 324 3 | 902 1 | 595 6 | 188 1 | 783 7 |

The maturity profile of the Group's financial derivatives (which include interest rate and foreign exchange swaps), using undiscounted cash flows, is as follows

| | 2012 Payable £m | 2012 Receivable £m | 2011 Payable £m | 2011 Receivable £m |
|---|---|---|---|---|
| Less than 1 year | (303 4) | 306 9 | (390 2) | 394 1 |
| 1-2 years | (5 4) | 9 0 | (6 1) | 9 4 |
| 2-5 years | (12 8) | 22 8 | (16 3) | 25 7 |
| More than 5 years | (7 1) | 13 0 | (13 0) | 21 2 |
| | (328 7) | 351 7 | (425 6) | 450 4 |

The maturity profile of the Group's put option liabilities, using undiscounted cash flows, is as follows

| | 2012 £m | 2011 £m |
|---|---|---|
| Less than 1 year | 2 1 | 3 6 |
| 1-2 years | 0 3 | 3 0 |
| 2-5 years | 5 8 | 5 2 |
| More than 5 years | 3 0 | 3 6 |
| | 11 2 | 15 4 |
| Effect of discount / financing rates | (0 8) | (1 0) |
| | 10 4 | 14 4 |

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

| | 2012 £m | 2011 £m |
|---|---|---|
| Expiring between two and five years | 450 0 | 450 0 |

## 20 Financial instruments (continued)

### g) Interest rate and currency profile

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

#### Financial assets

The table below summarises current financial assets by interest type The Group's non-current financial assets do not bear interest

| | Floating rate | Non-interest bearing | 2012 Total | Floating rate | Non-interest bearing | 2011 Total |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| GBP | 6 7 | 0 5 | 7 2 | 209 1 | 0 1 | 209 2 |
| USD | 119 1 | 1 8 | 120 9 | 66 2 | 4 0 | 70 2 |
| EUR | 49 3 | 3 6 | 52 9 | 153 5 | 2 8 | 156 3 |
| Other currencies | 213 5 | 8 6 | 222 1 | 172 4 | 18 0 | 190 4 |
| | 388 6 | 14 5 | 403 1 | 601 2 | 24 9 | 626 1 |
| Trade receivables and other financial assets | | | 1,969 9 | | | 1,912 8 |
| Derivative financial assets | | | 18 4 | | | 22 4 |
| Available-for-sale financial assets | | | 2 2 | | | 4 8 |
| Held to maturity investments | | | 0 1 | | | 0 1 |
| | | | 2,393 7 | | | 2,566 2 |

The majority of cash is invested in short term fixed rate deposits of less than one month with the balance in interest bearing current accounts It is management's view that the short term nature of these deposits means they effectively act as floating rate assets

The floating rate financial assets above are represented by cash at bank and in hand and short-term deposits

#### Financial liabilities

| | Fixed rate | Floating rate | Non-interest bearing | 2012 Total | Fixed rate | Floating rate | Non-interest bearing | 2011 Total |
|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m |
| GBP | 264 9 | 92 4 | 0 9 | 358 2 | 260 2 | 94 1 | 1 0 | 355 3 |
| USD | 158 8 | 35 1 | 4 3 | 198 2 | 177 3 | 36 0 | 6 8 | 220 1 |
| EUR | 30 9 | - | - | 30 9 | 123 8 | 6 1 | - | 129 9 |
| Other currencies | 9 6 | 142 1 | - | 151 7 | 19 8 | 36 5 | - | 56 3 |
| Gross borrowings | 464 2 | 269 6 | 5 2 | 739 0 | 581 1 | 172 7 | 7 8 | 761 6 |
| Issue costs of debt | (2 0) | (2 0) | - | (4 0) | (3 3) | (3 8) | - | (7 1) |
| | 462 2 | 267 6 | 5 2 | 735 0 | 577 8 | 168 9 | 7 8 | 754 5 |
| Trade payables and other financial liabilities | | | | 2,264 8 | | | | 2,228 3 |
| Derivative financial liabilities | | | | 15 2 | | | | 28 1 |
| | | | | 3,015 0 | | | | 3,010 9 |

## 20 Financial instruments (continued)

### g) Interest rate and currency profile (continued)

The weighted average interest rates paid were as follows

| | 2012 | 2011 |
|---|---|---|
| | % | % |
| Bank overdrafts | 4 6 | 4 7 |
| Bank loans | 5 3 | 6 1 |
| Loan notes | 4 3 | 4 0 |

The Group's borrowings, excluding the US$183m of unsecured loan notes issued in 2005, US$125m of unsecured loan notes issued in 2007 and US$183m and £25m of the unsecured loan notes issued in 2009 incur interest at floating rates

At 31 December 2012, it is estimated that a general simultaneous parallel uplift of 1% in interest rates would increase the Group's reported profit by approximately £1 4m (2011 £0 6m increase)

### h) Sensitivity analysis

The following table details the Group's sensitivity to a 1% increase in Sterling against the significant foreign currencies of the Group The sensitivity analysis was performed taking outstanding foreign currency denominated monetary items as at year end and adjusting their translation at the period end for a 1% change in foreign currency rates The sensitivity analysis includes external loans For a 1% weakening of Sterling against the relevant currency, there would be an equal and opposite impact on the profit and other equity

| | Euro currency impact | | US dollar currency impact | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | £m | £m | £m | £m |
| Potential profit increase/(decrease) | 0 3 | (0 3) | 0 3 | 1 6 |
| Other equity | - | 1 4 | - | 1 0 |

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as certain financial instruments are used to hedge exposures on retranslation of the Group's operations denominated in currencies other than Sterling, which are outside the scope of IFRS7 This sensitivity analysis excludes the foreign currency translation risk of the foreign operations, and had this been included the sensitivities would have been disclosed as follows

| Sensitivity analysis including hedging instruments that are outside the scope of IFRS 7 | Euro currency impact | | US dollar currency impact | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | £m | £m | £m | £m |
| Potential profit increase/(decrease) | - | 0 1 | - | (0 1) |
| Other equity | 0 3 | - | 0 3 | - |

## Notes to the consolidated financial statements (continued)
For the year ended 31 December 2012

### 21 Deferred tax

| | Recognition of financial liabilities £m | Purchased intangibles £m | Deductions in respect of goodwill £m | Losses £m | Other short term temporary differences £m | Total £m |
|---|---|---|---|---|---|---|
| At 1 January 2011 - asset/(liability) | 0 2 | (26 4) | (18 5) | 28 4 | 21 4 | 5 1 |
| Deferred tax on intangibles | - | (21 2) | - | - | - | (21 2) |
| Deferred tax on acquisitions | - | - | - | - | 0 2 | 0 2 |
| Amounts credited/(charged) to equity | - | - | - | - | 0 4 | 0 4 |
| Deferred tax on discontinued operations | - | 4 1 | 3 2 | (3 5) | (1 9) | 1 9 |
| Amounts credited/(charged) to the income statement | 0 4 | 11 0 | (4 6) | 5 5 | 7 1 | 19 4 |
| Transfers | - | - | - | 1 7 | (1 7) | - |
| Exchange rate differences | - | 0 7 | - | 0 2 | (1 2) | (0 3) |
| At 1 January 2012 - asset/(liability) | 0 6 | (31 8) | (19 9) | 32 3 | 24 3 | 5 5 |
| Deferred tax on intangibles | - | (36 1) | - | - | - | (36 1) |
| Deferred tax on acquisitions | - | - | - | - | 0 4 | 0 4 |
| Amounts credited/(charged) to equity | - | - | - | - | 2 7 | 2 7 |
| Amounts credited/(charged) to the income statement | 0 7 | 15 1 | (5 8) | 5 3 | 7 9 | 23 2 |
| Transfers | 1 0 | - | - | - | (1 0) | - |
| Exchange rate differences | - | 1 1 | - | - | (2 4) | (1 3) |
| At 31 December 2012 - asset/(liability) | 2 3 | (51 7) | (25 7) | 37 6 | 31 9 | (5 6) |

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

| | 2012 £m | 2011 £m |
|---|---|---|
| Deferred tax liability | (59 2) | (50 8) |
| Deferred tax asset | 53 6 | 56 3 |
| | (5 6) | 5 5 |

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

| | 2012 £m | 2011 £m |
|---|---|---|
| Losses - revenue | 144 3 | 83 6 |
| Losses - capital | 182 2 | 185 5 |
| Other temporary differences | 27 3 | 35 0 |
| | 353 8 | 304 1 |

## 21 Deferred tax (continued)

The tax losses and other temporary differences have no expiry date, except for capital losses of £85 6m which have a tax expiry date of 4 years The total amount of tax losses and other temporary differences for which no deferred tax was recognised at 31 December 2012 was £353 8m

Balances in the subsidiary entities are shown on a 100% basis, regardless of ownership percentage Balances in associates and joint ventures are not included

No deferred tax liability is recognised on temporary differences of £160 8m (2011 £120 2m) relating to the unremitted earnings of overseas subsidiaries as the Group is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future The temporary differences at 31 December 2012 represent only the unremitted earnings of those overseas subsidiaries where remittance to the UK of those earnings may still result in a tax liability, principally as a result of dividend withholding taxes levied by the overseas tax jurisdictions in which these subsidiaries operate

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

## 22 Provisions

| | 2012<br>£m |
|---|---|
| At 1 January 2012 | 4 6 |
| Additional provision in the year | 20 7 |
| Utilisation | (4 9) |
| Released | (0 5) |
| Exchange differences | (0 1) |
| At 31 December 2012 | 19 8 |

Provisions include onerous leases on property and restructuring Provision has been made for the costs of the Group's various restructuring and transformation programmes, most of which will be incurred in the next 12 months The Group's vacant leasehold properties are located in the UK and the US Provision has been made for the residual lease commitments for the remaining period of the leases, which at 31 December 2012 is approximately 2 2 years (2011 1 0 years)

### Contingent liabilities

The Group and its subsidiaries are subject to legal challenges and claims from time to time, and such claims are vigorously defended The Directors do not anticipate that the outcome of pending legal proceedings, either individually or in aggregate, will have a material adverse effect on the consolidated accounts or on the operations of the Group

## Notes to the consolidated financial statements (continued)
For the year ended 31 December 2012

### 23 Share capital

| | 2012 Number of ordinary shares | 2012 £m | 2011 Number of ordinary shares | 2011 £m |
|---|---|---|---|---|
| **Authorised** | | | | |
| Ordinary shares | 1,500,000,000 | 75 0 | 1,500,000,000 | 75 0 |
| **Issued, allotted, called up and fully paid** | | | | |
| At 1 January | 1,170,985,598 | 64 4 | 1,285,146,066 | 64 3 |
| Issue of shares by the Company | 2,122,913 | 0 1 | 2,927,460 | 0 1 |
| Share consolidation | - | - | (117,087,928) | - |
| At 31 December | 1,173,108,511 | 64 5 | 1,170,985,598 | 64 4 |

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

### 24 Own shares

At 31 December 2012, the Aegis Group Employee Share Trust (the "Trust") held 19,764,130 Ordinary Shares in the Company (31 December 2011 23,333,438) with a nominal value of £1 1m (31 December 2011 £1 3m) and a market value of £46 4m (31 December 2011 £33 7m)

The own shares reserve represents the cost of shares in Aegis Group plc acquired in the open market by the Trust using funds provided by Aegis Group plc The Trust has an ongoing arrangement with the Group to waive all dividends The Trust has purchased the shares to satisfy future share awards under the Group's share-based payment schemes

### 25 Share premium account

| | 2012 £m | 2011 £m |
|---|---|---|
| At 1 January | 398 7 | 395 8 |
| Issue of shares by the Company | 2 2 | 2 9 |
| At 31 December | 400 9 | 398 7 |

## 26 Acquisition of subsidiaries

### Roundarch

In February 2012, the Group acquired the entire issued share capital of Roundarch Inc ("Roundarch") Roundarch is a leading digital agency which specialises in designing and building enterprise-class digital solutions for clients Following the acquisition, Roundarch has been combined with Isobar, Aegis Media's existing digital creative network in the US, to form RoundarchIsobar Initial consideration paid was £78 9m with deferred consideration of £100 2m payable between 2013 and 2017

A provisional summary of the net assets acquired and goodwill arising in respect of Roundarch is given below

| **Provisional assessment of net assets acquired** | Carrying amount acquired | Accounting policy and Fair value adjustments | Fair value of net assets |
|---|---|---|---|
| | £m | £m | £m |
| Intangible assets | - | 48 3 | 48 3 |
| Property, plant and equipment | 0 8 | - | 0 8 |
| Trade and other receivables | 7 9 | (0 4) | 7 5 |
| Cash and cash equivalents | 1 7 | - | 1 7 |
| Trade and other payables | (4 4) | (0 2) | (4 6) |
| Other liabilities | (0 1) | (0 8) | (0 9) |
| Deferred tax liabilities | - | (19 3) | (19 3) |
| **Net assets** | **5 9** | **27 6** | **33 5** |
| Goodwill capitalised in the period | | | 145 6 |
| **Consideration** | | | 179 1 |
| | | | |
| **Satisfied by** | | | |
| Cash consideration | | | 78 9 |
| Deferred cash consideration | | | 100 2 |
| | | | 179 1 |

If the acquisition had been completed on the first day of the financial year, Group revenues for 2012 would have been £1,278 5m and Group profit before interest and tax would have been £51 4m Post acquisition revenue and profit before interest and tax (after amortisation of purchased intangible assets) from Roundarch was £33 6m and £3 3m respectively

Goodwill capitalised in the period represents the expected future benefits of improving the breadth of the Group's service offering and anticipated operational synergies Of the goodwill capitalised in the period, £75 4m is deductible for income tax purposes

## 26 Acquisition of subsidiaries (continued)

### Other acquisitions excluding Roundarch

During the period, the Group acquired subsidiaries as detailed below

| Company | Country of incorporation | Network brand | % Acquired (Total Group holding) | % Non-controlling interests recognised | Month of acquisition |
|---|---|---|---|---|---|
| **Aegis Media** | | | | | |
| Qualité | Norway | iProspect | 41% (75%) | 25% | January |
| PPI | Hungary | Posterscope | 100% | - | March |
| elink | China | Isobar | 100% | - | May |
| W Garden | France | iProspect | 100% | - | July |
| I Spy | UK | iProspect | 100% | - | August |
| D2D | UK | Other | 100% | - | August |
| C2 | India | iProspect | 100% | - | August |
| Adsit | China | iProspect | 100% | - | August |
| Irokeesi | Finland | Posterscope | 100% | - | October |
| Hablar* | Japan | iProspect | 100% | - | November |
| IQ Mobile | Austria | Other | 75% | 25% | November |
| OMP | China | Isobar | 100% | - | November |
| Netsociety | Netherlands & Belgium | iProspect | 100% | - | November |
| Catch Stone | China | Other | 100% | - | December |
| Triangulo | Chile | Carat | 90% | 10% | December |

Acquisitions that have not been rebranded to the existing network brands are referred to as 'Other' above

The acquisitions were entered into to strengthen the Group's operations and increase its market share around the world, especially in faster growing regions, and to enhance its servicing capabilities in media and digital

During the period, the Group also acquired additional stakes in existing subsidiaries as detailed below

| Company | Country of incorporation | % Acquired (Total Group holding) | Month of acquisition |
|---|---|---|---|
| **Aegis Media** | | | |
| New Voice Media | China | 30 0% (100 0%) | January |
| AgenciaClick | Brazil | 1 9% (98 1%) | May |
| Age | Brazil | 1 9% (98 1%) | May |
| iProspect Brazil | Brazil | 1 5% (98 6%) | May |
| Vizeum South Africa | South Africa | 49 0% (100%) | December |

If the acquisitions above (excluding additional stakes in existing subsidiaries and Roundarch) had been completed on the first day of the financial year, Group revenues for 2012 would have been £1,305 6m and Group profit before interest and tax would have been £65 3m Post acquisition revenue and profit before interest and tax on 2012 acquisitions was £15 2m and £4 1m respectively

Goodwill capitalised in the period represents the expected future benefits of improving the breadth of the Group's service offering and anticipated operational synergies No goodwill capitalised in the period is deductible for income tax purposes All non-controlling interests are measured at the non-controlling interest share of the carrying value of net assets

* The remaining share capital of the acquisition is subject to a put and call option arrangement, however, the structure of the acquisition leads this to be treated as a deferred consideration liability, without the recognition of non-controlling interests

## 26 Acquisition of subsidiaries (continued)

### Other acquisitions excluding Roundarch (continued)

Consideration paid for acquisitions other than Roundarch, excluding acquisition costs, totalled £98 1m with estimated deferred consideration of £113 7m payable between 2013-2020, subject to performance criteria In those cases where the Group achieved control of subsidiaries for the first time, the acquisitions are not individually material to the Group and therefore the following disclosures are provided in aggregate

A provisional summary of the net assets acquired and goodwill arising in respect of all acquisitions made in the year is given below

| Provisional assessment of net assets acquired | Carrying amount acquired | Accounting policy and Fair value adjustments | Fair value of net assets |
|---|---|---|---|
| | £m | £m | £m |
| Intangible assets | 0 4 | 65 3 | 65 7 |
| Property, plant and equipment | 0 9 | 0 1 | 1 0 |
| Deferred tax assets | 0 4 | - | 0 4 |
| Financial assets | 0 1 | - | 0 1 |
| Trade and other receivables | 79 7 | (0 2) | 79 5 |
| Cash and cash equivalents | 27 2 | - | 27 2 |
| Trade and other payables | (79 2) | (0 1) | (79 3) |
| Other liabilities | (0 9) | (0 1) | (1 0) |
| Current tax liabilities | (3 8) | (0 1) | (3 9) |
| Deferred tax liabilities | - | (16 8) | (16 8) |
| **Net assets** | **24 8** | **48 1** | **72 9** |
| Non-controlling interest on current period acquisitions | | | (0 8) |
| | | | 72 1 |
| Goodwill capitalised in the period | | | 140 1 |
| **Consideration** | | | **212 2** |
| | | | |
| **Satisfied by** | | | |
| Cash consideration | | | 98 1 |
| Deferred cash consideration | | | 113 7 |
| Acquisition-date fair value of the previously held equity interest in the acquiree | | | 0 4 |
| | | | 212 2 |

## 27 Other non-current liabilities

| | 2012 £m | 2011 £m |
|---|---|---|
| Deferred consideration | 254 8 | 128 4 |
| Pensions (see note 32) | 6 9 | 6 3 |
| Other | 8 7 | 5 1 |
| At 31 December | 270 4 | 139 8 |

### Deferred consideration

Deferred consideration, which has been included within trade and other payables to the extent that it is due within one year (note 19), may be paid to the vendors of certain subsidiary undertakings in the years to 2020 Such payments are either fixed under the terms of the acquisition or are contingent on future financial performance Deferred consideration arising on acquisitions completed prior to 1 January 2010 is presented at the Directors' best estimate of the total payable Changes in such estimates in the current period have led to an increase in the liability of £1 3m Following the adoption of IFRS 3 (revised), deferred consideration arising on acquisitions completed from 1 January 2010 is recorded at fair value on acquisition, with subsequent changes reflected in the income statement

Deferred consideration is discounted at the Group's weighted average cost of borrowing The Directors estimate that, at the rates of exchange ruling at the balance sheet date, the discounted liability at the balance sheet date for payments that may be due is as follows

| | 2012 £m | 2011 £m |
|---|---|---|
| Within one year | 59 5 | 53 9 |
| Between one and two years | 66 6 | 29 4 |
| Between two and five years | 187 5 | 91 2 |
| Greater than five years | 0 7 | 7 8 |
| At 31 December | 314 3 | 182 3 |

The minimum potential liability is £8 8m and the maximum potential liability is £600 4m The maximum potential liability is only payable if the post-acquisition profit performance of the acquisition meets stretching profit targets in the post-acquisition period

Liabilities in respect of put options granted to non-controlling interests are disclosed as derivative liabilities Their expected maturities and a reconciliation of movements in the year are given in note 20

## 28 Contingent Asset

As reported in prior years, during 2006 the Group became aware of a fraud perpetrated against Aegis Media Germany The Group has successfully recovered a portion of the monies expected to be due Further recoveries are anticipated in future years but the value to be received is not sufficiently certain to be recognised as an asset

# Notes to the consolidated financial statements (continued)
For the year ended 31 December 2012

## 29 Notes to the cash flow statement

| | 2012 | 2011 |
|---|---|---|
| | £m | £m |
| **Operating profit from continuing operations** | **60 6** | 145 8 |
| Operating loss from discontinued operations | **-** | (0 5) |
| Total Group operating profit | **60 6** | 145 3 |
| Adjustments for | | |
| Depreciation of property, plant and equipment | **19 1** | 23 5 |
| Amortisation of intangible assets | **58 0** | 47 3 |
| Impairment of intangibles and property, plant and equipment | **0 9** | - |
| Impairment of goodwill | **7 6** | - |
| Loss on disposal of subsidiaries | **0 2** | 10 8 |
| Net loss on disposal of intangibles and property, plant and equipment | **0 1** | 0 2 |
| Share-based payment expense | **18 7** | 9 0 |
| Increase / (decrease) in provisions | **14 3** | (3 4) |
| | **179 5** | 232 7 |
| Increase in receivables | **(240 6)** | (89 7) |
| Decrease / (increase) in work in progress | **0 2** | (5 9) |
| Increase in payables | **241 3** | 70 9 |
| | **0 9** | (24 7) |
| **Cash generated from operations** | **180 4** | 208 0 |

The loss on disposal of subsidiaries as shown in the comparatives above excludes the gain on disposal relating to the discontinued operations of Synovate in 2011, as this is also excluded from Total Group operating profit

### Analysis of net debt

| | 1 January 2012 | Cash flow | Other non-cash movements | Exchange movements | **31 December 2012** |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | **£m** |
| **Analysis of net debt** | | | | | |
| Cash and short-term deposits | 626 1 | (203 6) | - | (19 4) | **403 1** |
| Overdrafts | (8 9) | (12 9) | - | 1 0 | **(20 8)** |
| Cash and cash equivalents | 617 2 | (216 5) | - | (18 4) | **382 3** |
| Debt due within one year | (129 3) | 54 9 | (33 9) | 3 5 | **(104 8)** |
| Debt due after more than one year | (623 4) | 0 4 | (5 8) | 15 4 | **(613 4)** |
| Net debt before issue costs of debt | (135 5) | (161 2) | (39 7) | 0 5 | **(335 9)** |
| Issue costs of debt | 7 1 | - | (3 1) | - | **4 0** |
| Total | (128 4) | (161 2) | (42 8) | 0 5 | **(331 9)** |

## 30 Operating lease arrangements

| | 2012 £m Land and buildings | 2012 £m Other | 2012 £m Total | 2011 £m Land and buildings | 2011 £m Other | 2011 £m Total |
|---|---|---|---|---|---|---|
| Lease payments under operating leases recognised in operating expenses from continuing operations | 54 0 | 2 6 | 56 6 | 49 3 | 2 1 | 51 4 |

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

| **Gross lease commitments payable** | 2012 £m Land and buildings | 2012 £m Other | 2012 £m Total | 2011 £m Land and buildings | 2011 £m Other | 2011 £m Total |
|---|---|---|---|---|---|---|
| Within one year | 48 2 | 3 0 | 51 2 | 48 1 | 4 0 | 52 1 |
| In the second to fifth years inclusive | 128 6 | 2 8 | 131 4 | 122 3 | 3 0 | 125 3 |
| After five years | 147 9 | 0 1 | 148 0 | 93 9 | - | 93 9 |
| | 324 7 | 5 9 | 330 6 | 264 3 | 7 0 | 271 3 |

| **Committed sublease income** | 2012 £m Land and buildings | 2012 £m Other | 2012 £m Total | 2011 £m Land and buildings | 2011 £m Other | 2011 £m Total |
|---|---|---|---|---|---|---|
| Within one year | (0 4) | - | (0 4) | (0 1) | - | (0 1) |
| In the second to fifth years inclusive | (0 4) | - | (0 4) | (0 2) | - | (0 2) |
| | (0 8) | - | (0 8) | (0 3) | - | (0 3) |

| **Net minimum lease commitments** | 2012 £m Land and buildings | 2012 £m Other | 2012 £m Total | 2011 £m Land and buildings | 2011 £m Other | 2011 £m Total |
|---|---|---|---|---|---|---|
| Within one year | 47 8 | 3 0 | 50 8 | 48 0 | 4 0 | 52 0 |
| In the second to fifth years inclusive | 128 2 | 2 8 | 131 0 | 122 1 | 3 0 | 125 1 |
| After five years | 147 9 | 0 1 | 148 0 | 93 9 | - | 93 9 |
| | 323 9 | 5 9 | 329 8 | 264 0 | 7 0 | 271 0 |

Operating lease payments principally represent rentals payable by the Group for certain of its office properties Outstanding leases have an average term of 3 3 years and rentals are fixed for an average of 2 4 years

## Notes to the consolidated financial statements (continued)
For the year ended 31 December 2012

### 31 Share-based payments

The Group recognised a total expense of £18 7m (2011 £6 9m) in respect of all share-based payments in the year Share-based payments include share options and conditional share awards Comparative exclude discontinued operations

### Share options

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

| | 2012 Options (millions) | 2012 Weighted average exercise price (£) | 2011 Options (millions) | 2011 Weighted average exercise price (£) |
|---|---|---|---|---|
| Outstanding at beginning of period | 5 1 | 1 15 | 8 1 | 1 12 |
| Forfeited during the period | - | - | (0 1) | 1 13 |
| Exercised during the period | (2 1) | 1 08 | (2 9) | 1 06 |
| Outstanding at end of period | 3 0 | 1 21 | 5 1 | 1 15 |
| Exercisable at end of period | 3 0 | 1 21 | 5 1 | 1 15 |

The weighted average share price at the date of exercise for share options exercised during the period was £1 08 (2011 £1 06) The options outstanding at 31 December 2012 had a range of exercise prices between £0 78 (2011 £0 78) and £1 48 (2011 £1 48), and a weighted average remaining contractual life of 2 8 years (2011 3 4 years) No options were granted in 2012 The Group did not recognise any expense (2011 £Nil) in respect of share options in the year

### Conditional share awards

The Group issues conditional share awards to certain employees The vesting period is typically three years The extent to which awards vest is determined in documented scheme rules and may be based on the employees' continuing employment, the Company's TSR performance relative to a group of similar businesses and the Company's EPS growth Further details are provided in the Remuneration Report

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

| | 2012 | 2011 |
|---|---|---|
| Weighted average share price (£) | 1 62 | 1 37 |
| Expected volatility | 29 0% | 38 0% |
| Risk free rate | 0 6% | 2 0% |
| Expected dividend yield | 1 8% | 1 8% |

During 2012, 7 1m conditional share awards were granted (2011 8 0m), with a weighted average fair value per share of £1 33 (2011 £1 19) at the relevant measurement date

The Group recognised a total expense of £18 7m (2011 £6 9m) in respect of conditional share awards in the year This comparative excludes discontinued operations

## 32 Retirement benefit schemes

### Defined contribution schemes

Retirement benefits for employees are principally provided by defined contribution schemes which are funded by contributions from Group companies and employees The amount charged to the profit and loss account of £14 5m (2011 £12 5m) represents contributions payable in the year to these schemes at rates specified in the rules of the plans As at 31 December 2012, contributions of £1 8m (2011 £1 7m) due in respect of the current reporting period had not been paid over to the schemes

### Other retirement benefit schemes

The Group operates a small number of retirement benefit schemes that do not fall under the definition of defined contribution schemes, principally where required by local statutory regulations The principal schemes are located in Germany, Italy, France and Norway Under these schemes, the Group's liabilities in respect of past service are fixed as a percentage of past salaries, but the schemes do not meet the definition of defined contribution schemes because contributions have not been paid to a separate entity These schemes are not considered by management to represent standard defined benefit schemes and do not vary significantly in terms of the Group's liability However, IAS 19 requires that these schemes be disclosed as defined benefit schemes The numbers below are in respect of all material Group defined benefit schemes, unless otherwise stated

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 31 December 2012 The present value of the defined benefit obligation, the related service cost and the past service cost were measured using the projected unit credit method

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

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

| | 2012 £m | 2011 £m |
|---|---|---|
| Fair value of pension scheme assets | 5 1 | 4 2 |
| Present value of defined benefit obligations | (11 3) | (10 0) |
| Deficit in scheme | (6 2) | (5 8) |
| Related deferred tax (liability) / asset | (0 2) | 1 2 |
| Net pension liability net of deferred tax liability | (6 4) | (4 6) |

The deficit in scheme includes non-current net defined benefit obligations of £6 9m and net scheme assets of £0 7m The plan assets do not include any of the Group's own financial assets, nor any property occupied by, or other assets used by, the Group

## 33 Related party transactions

### Remuneration of key management personnel

The following is the compensation of Directors and key management Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report

| | 2012 | 2011 |
|---|---|---|
| | £m | £m |
| Short-term employee benefits | 3 4 | 3 4 |
| Post-employment benefits | 0 3 | 0 4 |
| Termination benefits | - | 1 2 |
| Share-based payment | 1 8 | 2 2 |
| | 5 5 | 7 2 |

### Transactions with associated undertakings

In 2012, Group subsidiary companies purchased media space from associated undertakings totalling £14 6m (2011 £22 6m) The balance due from Group companies to associated undertakings at the end of 2012 was £9 3m (2011 £7 0m) The balance due from associated undertakings to Group companies at the end of 2012 was £3 6m (2011 £1 1m)

### Other related party disclosures

Harold Mitchell's son, Stuart Mitchell, is an employee of Aegis Media Pacific, part of the Mitchell Communication Group, which was acquired by Aegis Group plc in 2010 Aegis Media Pacific Management Services Pty Limited leases premises from Mitchell Land Pty Ltd, of which Harold Mitchell is a director, under a 10-year lease expiring in 2020 and from a company controlled by another member of his family under a monthly tenancy, for a combined annual rental charge of £1 4m

Harold Mitchell is a director of Mitchell Air Pty Ltd, which owns a jet aircraft and on-charges Aegis Media Australia at arm's length rates the cost of travel by employees using the jet for business purposes Mitchell Air Pty Ltd is the trustee of the Mitchell Air Trust, to whom Harold Mitchell is a nominated beneficiary

## 34 Subsequent events

### Acquisitions completed after the balance sheet date

In January 2013, the Group acquired the entire share capital of Lucidity Digital, a leading web design and development agency in Ireland The acquisition of Lucidity will allow Aegis Media clients access to a full suite of digital creative and production services and will further strengthen the Aegis Media Digital position in the Irish market Lucidity will become part of Aegis's digital creative origination network, Isobar, and will be re-branded Lucidity Isobar in Ireland

During January 2013, The Group acquired 51% of its affiliate partner in Colombia, Carat Colombia, to continue expansion in Latin America The acquisition is line with the Group's strategy to expand in faster growing regions The Group will have the option to acquire the remaining shareholding in five years time

The additional IFRS3 (2008) disclosures are not given because the initial accounting for the business combination is incomplete at the time the financial statements are authorised for issue

### Cash offer for Aegis Group plc from Dentsu Inc

On 11 February 2013, Dentsu and Aegis announced an extension to the long stop date for the acquisition from 28 February to 28 March 2013

The Scheme became effective in accordance with the Scheme Document and completed on 26 March 2013

Aegis's applications to the UK Listing Authority and to the London Stock Exchange for the listing of Aegis Shares on the Official List and the trading of Aegis Shares on the London Stock Exchange's main market for listed securities to be cancelled were approved, in each case with effect from 8 00 a m (London time) on 27 March 2013

# Five-year summary

| | 2012 £m | 2011 £m | 2010 £m | 2009 £m | 2008 £m |
|---|---|---|---|---|---|
| **Income statement** | | | | | |
| Revenue | 1,272 1 | 1,135 0 | 941 0 | 873 0 | 856 4 |
| Profit before tax excluding Dentsu transaction costs | 77 9 | 106 4 | 33 5 | 82 3 | 94 5 |
| Profit attributable to equity holders of the parent excluding Dentsu transaction costs | 53 3 | 79 6 | 18 2 | 56 4 | 61 3 |
| Loss before tax | (28 8) | 106 4 | 33 5 | 82 3 | 94 5 |
| Loss attributable to equity holders of the parent | (47 3) | 79 6 | 18 2 | 56 4 | 61 3 |
| **Balance sheet** | | | | | |
| Non-current assets | 1,721 7 | 1,396 0 | 1,628 1 | 1,200 7 | 1,345 7 |
| Net current (liabilities)/assets | (388 0) | (111 0) | (198 4) | (6 5) | (5 4) |
| Non-current liabilities | (954 5) | (822 3) | (761 3) | (749 7) | (880 5) |
| Net assets | 379 2 | 462 7 | 668 4 | 444 5 | 459 8 |
| **Financed by** | | | | | |
| Equity | 374 9 | 457 1 | 654 9 | 431 9 | 442 5 |
| Non-controlling interests | 4 3 | 5 6 | 13 5 | 12 6 | 17 3 |
| | 379 2 | 462 7 | 668 4 | 444 5 | 459 8 |
| | Pence | Pence | Pence | Pence | Pence |
| Earnings per share | | | | | |
| - Basic excluding Dentsu transaction costs | 4 6 | 6 5 | 1 6 | 5 0 | 5 4 |
| - Diluted excluding Dentsu transaction costs | 4 6 | 6 5 | 1 6 | 5 0 | 5 4 |
| - Basic | (4 1) | 6 5 | 1 6 | 5 0 | 5 4 |
| - Diluted | (4 1) | 6 5 | 1 6 | 5 0 | 5 4 |
| Dividend rate per share | - | 20 28 | 2 75 | 2 50 | 2 50 |

The amounts disclosed for all years have been prepared under IFRS

Ernst & Young

# Independent Auditor's Report to the Members of Aegis Group plc

We have audited the financial statements of Aegis Group plc for the year ended 31 December 2012 which comprise the Parent Company Balance Sheet and the related notes 1 to 16 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

## Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the parent Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

## Opinion on financial statements

In our opinion the parent Company financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2012,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent Company financial statements

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or

- we have not received all the information and explanations we require for our audit

Other matter

We have reported separately on the group financial statements of Aegis Group plc for the year ended 31 December 2012

Ernst & Young LLP

Richard Addison (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
27 March 2013

## Company balance sheet

at 31 December 2012

| | Notes | 2012 | 2011 |
|---|---|---|---|
| **Fixed assets** | | **£m** | £m |
| Tangible assets | 4 | **12 1** | 10 6 |
| Investments | 5 | **1,393 4** | 1,714 1 |
| Derivative financial assets | 10 | **17 9** | 20 1 |
| | | **1,423 4** | 1,744 8 |
| **Current assets** | | | |
| Debtors | | | |
| - due within one year | 6 | **2,192 5** | 235 8 |
| - due after more than one year | 7 | **16 4** | 3 5 |
| Derivative financial assets | | **-** | 0 5 |
| Cash at bank and in hand | | **10 8** | 128 1 |
| | | **2,219 7** | 367 9 |
| Creditors Amounts falling due within one year | 8 | **(1,528 3)** | (853 8) |
| Derivative financial liabilities | 10 | **-** | (8 9) |
| **Net current liabilities** | | **691 4** | (494 8) |
| **Total assets less current liabilities** | | **2,114 8** | 1,250 0 |
| Creditors Amounts falling due after more than one year | 9 | **(341 2)** | (351 4) |
| Derivative financial liabilities | 10 | **(3 3)** | (2 5) |
| **Net assets** | | **1,770 3** | 896 1 |
| | | | |
| Called up share capital | 11 | **64 5** | 64 4 |
| Share premium account | 12 | **400 9** | 398 7 |
| Capital redemption reserve | 12 | **0 2** | 0 2 |
| Other reserve | 12 | **19 2** | 19 2 |
| Merger reserve | 12 | **13 0** | 13 0 |
| ESOP reserve | 12 | **(27 4)** | (31 2) |
| Capital reserve | 12 | **301 4** | 301 4 |
| Profit and loss account | 13 | **998 5** | 130 4 |
| **Equity shareholders' funds** | | **1,770 3** | 896 1 |

Company number 1403668 England and Wales

These financial statements were approved by the Board of Directors on 27 March 2013 and were signed on its behalf by

Jerry Buhlmann (Chief Executive Officer)

Nick Priday (Chief Financial Officer)

## 1 Basis of preparation and accounting policies

### Basis of preparation

The separate financial statements of the Company are presented as required by the Companies Act 2006 They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law

The Directors' Report, Corporate Governance and Directors' Remuneration Report disclosures have been made in the Group section of this annual report

The Company has utilised the exemptions provided under FRS 1 (Revised) and has not presented a cash flow statement The Group's cash flow statement has been presented in the Group financial statements

In accordance with FRS 8 Related Party Disclosures, the Company has taken advantage of the exemption from disclosing transactions with other wholly owned Group Companies and where the Group accounts contain these disclosures

As the parent Company of a group drawing up consolidated financial statements that meet the requirements of IFRS 7, it is exempt from disclosures that comply with its UK GAAP equivalent, FRS 29 Financial Instruments Disclosures

### Accounting policies

The principal accounting policies are summarised below They have all been applied consistently throughout the year and the preceding year

### Employee benefits

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

### Share-based payments

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

Certain employees receive remuneration in the form of share-based payments, including shares or rights over shares The cost of equity-settled transactions with employees is measured by reference to the fair value of the instruments concerned at the date at which they are granted The fair value is determined by an external valuer using a stochastic model The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest At each balance sheet date, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non market-based vesting conditions The impact of the revision of the original estimates, if any, is recognised in profit and loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity

Where a parent entity grants rights to its equity instruments to employees of a subsidiary, and such share-based compensation is accounted for as equity-settled in the consolidated financial statements of the parent, UITF 44 requires the subsidiary to record an expense for such compensation in accordance with FRS 20 Share-based payment, with a corresponding increase recognised in equity as a contribution from the parent

## 1 Basis of preparation and accounting policies (continued)

### Interest income

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

### Foreign exchange

Transactions in foreign currencies are recorded at the exchange rate ruling at the date of the transaction Upon settlement, monetary assets and liabilities are re-translated at the rate ruling on the settlement date Monetary assets and liabilities at the year end are re-translated at the exchange rate ruling at the balance sheet date

### Deferred taxation

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered Deferred tax assets and liabilities are not discounted

### Leased assets

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases Operating lease rentals are charged to income statement over the lease term on a straight-line basis In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability and recognised as a reduction of rental expense on a straight-line basis

### Tangible assets

Tangible fixed assets are stated at historical cost less accumulated depreciation

Depreciation is provided to write off the cost of all fixed assets to their residual value over their expected useful lives using the straight-line method It is calculated on the historic cost of the assets at the following rates

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

The carrying value of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable

### Investments

Investments in subsidiaries, associates and joint ventures, are held in the Company balance sheet at cost less any provisions for impairment

## 1 Basis of preparation and accounting policies (continued)

### Equity instruments

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

### Loans

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

### Derivative financial instruments

The Company uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements The Company does not hold or issue derivative financial instruments for speculative purposes

For a forward foreign exchange contract to be treated as a hedge the instrument must be related to actual foreign currency assets or liabilities or to a probable commitment It must involve the same currency or similar currencies as the hedged item and must also reduce the risk of foreign currency exchange movements on the Company's operations Gains and losses arising on these contracts are deferred and recognised in the profit and loss account, or as adjustments to the carrying amount of fixed assets, only when the hedged transaction has itself been reflected in the Company's financial statements

Changes in the fair value of the derivative financial instruments that do not qualify for hedge accounting are recognised in the profit and loss account as they arise

## 2 Profit for the year

As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the parent Company

Aegis Group plc reported a profit, before the payment of dividends, for the financial year ended 31 December 2012 of £885 0m (2011 £312 9 m)

The profit for the year of £885 0m includes dividends received of £234 2m (2011 £258 9m) from group companies

The auditor's remuneration for audit services to the Company amounted to £0 2m (2011 £0 2m) and for non-audit services amounted to £0 5m (2011 £0 5m)

Details of executive and non-executive directors' emoluments and their interest in shares and options of the Company are shown within the Remuneration Report

## Notes to the Company's financial statements (continued)
For the year ended 31 December 2012

### 3 Staff costs

The monthly average number of persons employed by the Company (excluding directors) during the year was 52 (2011 45) Their aggregate remuneration comprised

| | 2012 | 2011 |
|---|---|---|
| | £m | £m |
| Wages, salaries, bonus and benefits | 18 0 | 5 0 |
| Social security costs | 0 7 | 0 5 |
| Pension costs | 0 4 | 0 4 |
| **Staff Costs** | 19 1 | 5 9 |

Staff costs include a share-based payment expense of £12 8m (2011 £1 3m)

Directors' remuneration is disclosed in the front section of this report, refer to Remuneration Report

### 4 Tangible assets

| | Long leasehold and leasehold improvements | Equipment, fixtures and fittings | Computer software | Other | Total |
|---|---|---|---|---|---|
| COST | £m | £m | £m | £m | £m |
| At 1 January | 10 3 | 2 3 | 1 0 | 1 8 | 15 4 |
| Additions | - | - | 3 6 | 0 2 | 3 8 |
| **At 31 December** | 10 3 | 2 3 | 4 6 | 2 0 | 19 4 |
| | | | | | |
| ACCUMULATED DEPRECIATION | | | | | |
| At 1 January | 1 4 | 2 3 | 0 2 | 0 9 | 4 8 |
| Charge for the year | 1 1 | - | 1 0 | 0 2 | 2 3 |
| **At 31 December** | 2 5 | 2 3 | 1 2 | 1 1 | 7 1 |
| | | | | | |
| CARRYING AMOUNT | | | | | |
| **At 31 December 2012** | 7 8 | - | 3 4 | 0 9 | 12 1 |
| | | | | | |
| At 31 December 2011 | 8 9 | - | 0 8 | 0 9 | 10 6 |

Additions to leasehold improvements relate primarily to the UK office re-location

The net book value of other tangible assets includes trademarks of £0 9m (2011 £1 0m)

## 5 Investments

| | Interests in associates | Shares in subsidiary undertakings | Total |
|---|---|---|---|
| COST | £m | £m | £m |
| At 1 January | 0 2 | 1,886 3 | 1,886 5 |
| Additions | - | 84 8 | 84 8 |
| Disposals | - | (402 5) | (402 5) |
| At 31 December | 0 2 | 1,568 6 | 1,568 8 |
| ACCUMULATED IMPAIRMENT LOSSES | | | |
| At 1 January | - | 172 4 | 172 4 |
| Additions | - | 3 0 | 3 0 |
| Disposals | - | - | - |
| At 31 December | - | 175 4 | 175 4 |
| CARRYING AMOUNT | | | |
| At 31 December 2012 | 0 2 | 1,393 2 | 1,393 4 |
| At 31 December 2011 | 0 2 | 1,713 9 | 1,714 1 |

A listing of principal subsidiary and associated undertakings is included in note 16

Additions to investments principally relate to the formation of Portman Square US Holdings Limited, a direct subsidiary of the Company

Disposals of investments principally relate to the transfer of Aegis Group Participations Limited to Aegis Triton Limited, both direct subsidiaries of the Company

The Company's associated undertaking is

| | Nature of Operation | Country of Incorporation | Effective interest in ordinary share capital |
|---|---|---|---|
| Carat Philippines Inc | Media Communications | Philippines | 30% |

## 6 Debtors due within one year

| | 2012 | 2011 |
|---|---|---|
| | £m | £m |
| Amounts owed by subsidiary undertakings | 2,190 2 | 233 4 |
| Other debtors | 0 1 | 0 9 |
| Prepayments and accrued income | 2 2 | 1 5 |
| | 2,192 5 | 235 8 |

Amounts owed by subsidiary undertakings are on-demand and interest-bearing

Increase in amounts owed by subsidiary undertakings principally relate to the transfer of Aegis Group Participations Limited to Aegis Triton Limited, both direct subsidiaries of the Company

## 7 Debtors due after more than one year

| | 2012 £m | 2011 £m |
|---|---|---|
| Deferred tax asset | 16 4 | 3 5 |
| | 16 4 | 3 5 |

## 8 Creditors amounts falling due within one year

| | 2012 £m | 2011 £m |
|---|---|---|
| Loans | 4 6 | 109 4 |
| Less issue costs of debt to be amortised | (1 0) | (1 2) |
| | 3 6 | 108 2 |
| Trade creditors | 2 4 | 1 6 |
| Amounts owed to subsidiary undertakings | 1,414 5 | 726 3 |
| Other creditors | 0 5 | - |
| Provision for liabilities | 0 5 | 0 3 |
| Accruals and deferred income | 106 8 | 17 4 |
| | 1,528 3 | 853 8 |

Amounts owed to subsidiary undertakings are on-demand and interest-bearing

Reduction in loans principally relates to the repayment of a tranche of private placement debt in July 2012

Increase in amounts owed to subsidiary relate to restructuring of the holding Company structure within the group

The provision for liabilities is the Company's vacant leasehold properties which are located in the UK Provision has been made for the residual lease commitments for the remaining period of the leases split as current £0 5m (2011 £0 3m) and non-current £0 5m (2011 £0 8m)

## 9 Creditors amounts falling due after more than one year

| | 2012 £m | 2011 £m |
|---|---|---|
| Borrowings | 342 8 | 353 7 |
| Less issue costs of debt to be amortised | (2 1) | (3 1) |
| | 340 7 | 350 6 |
| Provision for liabilities | 0 5 | 0 8 |
| | 341 2 | 351 4 |

### Private Placement Debt – July 2005

On 28 July 2005, the Company issued US$342m of unsecured loan notes, repayable in 2012, 2015 and 2017 The interest rates applicable on these loan notes range from 5 25% to 5 65% During the year, US$159m of the loan notes were repaid The Company has outstanding loan notes of US$183m, repayable between 2015 and 2017, with applicable interest rates ranging between 5 50% to 5 65% as at 31 December 2012 These loan notes are guaranteed by the Company and certain of its subsidiaries On 9 November 2005 cross currency swaps were entered into for US$142m of the loan notes due in 2012 and US$50m of the loan notes due in 2015 to convert this US$ fixed rate borrowing into Euro fixed rate borrowing

## 9 Creditors amounts falling due after more than one year (continued)

### Private Placement Debt – September 2007

On 17 September 2007, the Company issued US$125m of unsecured loan notes repayable between 2014 and 2017 The interest rates applicable on these loan notes range from 6 06% to 6 29% These loan notes are guaranteed by the Company and certain of its subsidiaries

### Private Placement Debt – December 2009

On 17 December 2009, the Company issued US$183m and £25m of unsecured loan notes repayable between 2017 and 2019 The interest rates applicable on these loan notes range from 6 07% to 6 50% These loan notes are guaranteed by the Company and certain of its subsidiaries On 17 November 2009, an interest rate swap was entered into for US$50m of the loan notes due in 2019 to convert the US$ fixed rate debt to US$ floating rate debt On 17 November 2009, cross currency interest rate swaps were entered into for US$18m of the loan notes due in 2017 and US$115m of the loan notes due in 2019 to convert the US$ fixed rate borrowing to GBP floating rate borrowing

### Multi-currency credit facility – July 2010

In July 2010, the Company re-financed the five year £450m multi-currency credit facility with a group of international banks, which was originally entered into in June 2006 The facility is committed and revolving and allows drawings under a variety of currencies The facility is unsecured but guaranteed by the Company and certain of its subsidiaries until July 2015

Loans repayable, included within creditors, are analysed as follows

| | 2012 £m | 2011 £m |
|---|---|---|
| Repayable within one year | 4 6 | 109 4 |
| Repayable between one and two years | 46 4 | - |
| Repayable between two and five years | 181 2 | 124 4 |
| Repayable after more than five years | 115 4 | 229 3 |
| Issue cost of debt | (3 1) | (4 3) |
| | 344 5 | 458 8 |

Details of gross borrowings not wholly repayable within five years as follows

| | | |
|---|---|---|
| 5 65% fixed rate 2005 $65m private placement debt repayable 28 July 2017 | - | 41 9 |
| 6 29% fixed rate 2007 $50m private placement debt repayable 17 September 2017 | - | 32 2 |
| 6 39% fixed rate 2009 £25m private placement debt repayable 17 December 2017 | - | 25 0 |
| 6 07% fixed rate 2009 $18m private placement debt repayable 17 December 2017 | - | 11 6 |
| 6 50% fixed rate 2009 $165m private placement debt repayable 17 December 2019 | 101 6 | 106 4 |
| | 101 6 | 217 1 |

## 10 Derivative financial instruments

| | 2012 £m | 2011 £m |
|---|---|---|
| **Current** | | |
| Derivative financial assets | - | 0 5 |
| Derivative financial liabilities | - | (8 9) |
| **Non-current** | | |
| Derivative financial assets | 17 9 | 20 1 |
| Derivative financial liabilities | (3 3) | (2 5) |

The derivative financial assets and liabilities represent the fair value of the external and intra-group foreign exchange contracts, cross currency swaps, interest rate swap and cross currency interest rate swaps which are accounted for as fair value through profit and loss

### Cross currency swap

The fair value is based on a discounted cash flow model and market interest yield curves applicable and represents movements in the Euro/US$ foreign exchange spot rate and in Euro and US$ interest rate yields The cross currency swaps are synthetically split to reflect the Company's functional currency of Sterling The US$/Sterling legs of the swaps are designated and effective as cash flow hedges against the Company's US$ loan notes The Euro/Sterling legs of the swaps have been designated as fair value through profit and loss

### Interest rate swap

The fair value is based on a discounted cash flow model and market interest yield curves applicable and represents unrecognised movements which the Company expects to realise as a result of lower or higher variable interest payments under the swap compared with the fixed interest rate applicable on the underlying loan note The interest rate swap is designated and effective as fair value hedge against changes in the fair value of the debt caused by changes in interest rates Movements in the fair value of the interest rate swap are taken to profit and loss where they offset against similar but opposite movements in the fair value of the debt caused by movement in interest rates

### Cross currency interest rate swaps

The fair value is based on a discounted cash flow model and market yield curves applicable and represents movements in the GBP/US$ foreign exchange spot rate and in GBP and US$ interest rate yields Movements in the fair value of the cross currency interest rate swaps excluding the credit spread are taken to profit and loss where they offset against opposite movements in the fair value of the US$ loan notes caused by changes in interest rates and foreign exchange spot rates Movements in the fair value of the cross currency interest rate swaps relating to the credit spread are taken to reserves and released to the profit and loss when the underlying portion of US loan notes interest is recognised in profit and loss

Details of the fair value of the Company's derivative financial instruments are set out in note 20 of the Group's financial statements

## Notes to the Company's financial statements (continued)

For the year ended 31 December 2012

### 11 Share capital

| | 2012 Number of ordinary shares | 2012 £m | 2011 Number of ordinary shares | 2011 £m |
|---|---|---|---|---|
| **Authorised** | | | | |
| Ordinary shares | 1,500,000,000 | 75 0 | 1,500,000,000 | 75 0 |
| | | | | |
| **Issued, allotted, called up and fully paid** | | | | |
| At 1 January | 1,170,985,598 | 64 4 | 1,285,146,066 | 64 3 |
| Issue of shares by the Company | 2,122,913 | 0 1 | 2,927,460 | 0 1 |
| Share capital consolidation | - | - | (117,087,928) | - |
| At 31 December | 1,173,108,511 | 64 5 | 1,170,985,598 | 64 4 |

**Movements in called up share capital**

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

The Company issued a total of 2,122,913 shares (2011 2,927,460) in the year with an aggregate nominal value of £116,760 (2011 £146,905), 2,122,913 (2011 2,927,460) of which were due to the exercise of share options The total share premium arising on the issue of shares in the year was £2,166,669 (2011 £2,945,497)

Under the Company's share option schemes, there were outstanding options of 2,997,664 ordinary shares of 5 5p each at 31 December 2012 (2011 5 1 million), for which the participants have the right to exercise their options at prices ranging from £0 78 to £1 48 These options are exercisable between 25 June 2013 and 23 March 2017

### 12 Share premium account and reserves

| | Share premium account | Capital Redemption reserve | Other reserve | Merger reserve | ESOP reserve | Capital reserve | Profit and loss account | Total |
|---|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m | £m |
| At 1 January | 398 7 | 0 2 | 19 2 | 13 0 | (31 2) | 301 4 | 130 4 | 831 7 |
| Retained profit for the year | - | - | - | - | - | - | 885 0 | 885 0 |
| Cash flow hedge reserve | - | - | - | - | - | - | (0 5) | (0 5) |
| Share capital subscribed | 2 2 | - | - | - | - | - | | 2 2 |
| Purchase of shares by ESOP | - | - | - | - | (6 5) | - | | (6 5) |
| Shares awarded by ESOP | - | - | - | - | 10 3 | - | (10 3) | - |
| Credit for share-based incentive schemes | - | - | - | - | - | - | 17 0 | 17 0 |
| Dividends to shareholders | - | - | - | - | - | - | (23 1) | (23 1) |
| At 31 December | 400 9 | 0 2 | 19 2 | 13 0 | (27 4) | 301 4 | 998 5 | 1,705 8 |

At 31 December 2012, the Aegis Group Employee Share Trust (the "Trust") held 19,764,130 Ordinary shares in the Company (31 December 2011 23,333,438) with a nominal value of £1 1m (31 December 2011 £1 3m) and a market value of £46 4m (31 December 2011 £33 7m)

The capital redemption reserve represents the conversion, issue and redemption of shares by the Company, less expenses The other reserve contains the equity component of the convertible bond

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

## Notes to the Company's financial statements (continued)
For the year ended 31 December 2012

### 13 Profit and loss account

| | 2012 £m | 2011 £m |
|---|---|---|
| At 1 January | 130 4 | 49 5 |
| Shares awarded by ESOP | (10 3) | (15 2) |
| Retained profit for the year | 885 0 | 312 9 |
| Dividends to shareholders | (23 1) | (231 5) |
| Credit for share-based incentive schemes | 17 0 | 11 0 |
| Cash flow hedge reserve | (0 5) | 3 7 |
| At 31 December | 998 5 | 130 4 |

The employee share trust has an ongoing arrangement with the Group to waive all dividends As a result, the total cash paid in settlement of the final dividend for 2011 was £23 1m

Following the announcement of the offer for Aegis Group plc by Dentsu Inc on 12 July 2012, and the subsequent acceptance of the scheme by shareholders on 16 August 2012, no further dividends are proposed

The 2011 special dividend was combined with a 10 for 11 consolidation of Aegis Group plc ordinary shares The interim dividend for 2011 is equivalent to 1 19p per share on a post consolidation basis, and the special dividend for 2011 is equivalent to 17 08p per share on a post consolidation basis

### 14 Share-based payments

The Company recognised a total expense of £12 8m (2011 £1 3m) in respect of all share-based payments in the year Additionally, the Company recognised an addition to fixed asset investments of the aggregate amount of contributions of £5 9 million (2011 £9 7 million), with a credit to equity for the same amount Share-based payments include share options and conditional share awards

#### Share options

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

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

The weighted average share price at the date of exercise for share options exercised during the period was £1 08 (2011 £1 06) The options outstanding at 31 December 2012 had a range of exercise price between £0 78 (2011 £0 78) and £1 48 (2011 £1 48), and a weighted average remaining contractual life of 2 8 years (2011 3 4 years) No options were granted in 2012 The Company did not recognise any expense (2011 £Nil) in respect of share options in the year

## 14 Share-based payments (continued)

### Conditional share awards

The Company issues conditional share awards to certain employees The vesting period is typically three years The extent to which awards vest is determined in documented scheme rules and may be based on the employees' continuing employment, the Company's TSR performance relative to a group of similar businesses and the Company's EPS growth Further details are provided in the Remuneration Report The fair value of conditional share awards was determined using a stochastic model using the assumptions given in the table below

| | 2012 | 2011 |
|---|---|---|
| Weighted average share price (£) | 1 62 | 1 37 |
| Expected volatility | 29 0% | 38 0% |
| Risk free rate | 0 6% | 2 0% |
| Expected dividend yield | 1 8% | 1 8% |

## 15 Operating lease arrangements

At 31 December 2012, there were the following annual commitments in respect of non-cancellable operating leases

| | 2012 £m | 2011 £m |
|---|---|---|
| Operating lease payments recognised in expense for the year | 2 3 | 2 2 |
| **Operating leases that expire** | | |
| Between two and five years | 0 5 | 0 5 |
| After five years | 1 8 | 1 8 |
| | 2 3 | 2 3 |

## Notes to the Company's financial statements (continued)
For the year ended 31 December 2012

### 16 Principal subsidiary and associated undertakings

All shareholdings are of ordinary shares

All of the principal subsidiary and associated undertakings are disclosed below To avoid a statement of excessive length, details of investments which are not significant have been omitted

| Principal subsidiary undertakings | Country of incorporation and operation | Effective interest in issued share capital at 31 Dec 2012 |
|---|---|---|
| Aegis Media France S A S | France | 100% |
| Aegis Media Iberia S L | Spain | 100% |
| Aegis Media (Central Europe & Africa) GmbH | Germany | 100% |
| Carat Nordic AB | Sweden | 100% |
| Aegis Media Italia Srl | Italy | 100% |
| Aegis Media Ltd | England and Wales | 100% |
| Eaton Gate Inc | US | 100% |
| Aegis Media Pacific Limited | England and Wales | 100% |
| Aegis Australia Holdings Pty Ltd | Australia | 100% |
| Aegis Finance (Guernsey) Limited | Guernsey | 100% |
| Portman Square US Holdings Limited | US | 100% |
| **Principal associate undertakings** | | |
| Charm Communications Inc | China | 16 2% |