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Aegis Group plc

Annual Report and Accounts 2002

AEGIS

Group at a glance

Financial Highlights

		2002	2001	2000	1999	1998
Turnover		**£6,233.8m**	£6,095.7m	£5,712.5m	£4,791.8m	£4,130.0m
Revenue		**£591.9m**	£529.0m	£473.0m	£323.5m	£221.0m
Gross profit		**£515.1m**	£463.2m	£382.8m	£281.7m	£221.0m
Underlying operating profit*		**£76.6m**	£71.1m	£84.5m	£66.4m	£50.6m
Underlying profit before tax*		**£71.4m**	£63.3m	£78.4m	£64.6m	£51.1m
Earnings per share — underlying*	— basic	**4.4p**	3.8p	5.0p	4.3p	4.0p
	— diluted	**4.3p**	3.8p	4.9p	4.2p	3.7p
Earnings/(loss) per share — FRS 14	— basic	**1.3p**	(0.6p)	4.4p	4.6p	4.0p
	— diluted	**1.3p**	(0.6p)	4.3p	4.4p	3.7p
Full year dividend per share		**1.25p**	1.20p	1.15p	1.0p	0.85p
Operating cash flow		**£109.3m**	£66.3m	£96.2m	£76.3m	£57.0m
Net (debt)/funds		**£(120.3)m**	£(126.0)m	£(59.0)m	£(15.1)m	£36.9m
New business performance — media		**US$1,487m**	US$1,701m	US$2,045m	US$1,206m	US$770m

*Before amortisation of goodwill and exceptional items. The full statutory profit and loss account is set out on page 39.

Key Events

March 2003	>	Aegis announces Vizeum as new independent media brand
January 2003	>	Aegis launches Synovate as new global research brand
October 2002	>	Aegis acquires interest in ViewsCast in UK
September 2002	>	Aegis acquires Inner Strategic Research in Spain
August 2002	>	Aegis acquires Sample Surveys research in UK
May 2002	>	Aegis successfully completes Convertible Bond Issue to raise €165m
February 2002	>	Aegis acquires interest in The Filter Group in Asia
	>	Aegis acquires Market&More in Europe
	>	Carat awarded media Agency of Record for Hyundai North America
January 2002	>	Carat named Global Media Agency of the Year
	>	Aegis acquires interest in Chusen Media in Japan
	>	US acquisition strengthens Carat's interactive business

Aegis business profiles

Aegis Group plc

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

Carat

Carat is the world's largest independent media communication specialist. Present in 48 countries across Europe, North America, Asia-Pacific and Latin America, with gross billings of US $17.5 billion. Carat's national operating companies are leaders in most of their markets.

Synovate

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

Aegis Group websites

Aegis Group plc

Investor site
www.aegisplc.com

Media

Carat
www.carat.com

Carat North America
www.carat-na.com

Media Marketing Assessment (MMA)
www.mma.com

Posterscope
www.posterscope.co.uk

Outdoor Vision
www.outdoorvision.com

Research

Synovate
www.synovate.com

Carat

48 countries

4,600 employees

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

Synovate

46 countries

2,900 employees

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

'In 2002, Aegis grew profit and revenue and took market share from its rivals in challenging trading conditions. Revenue growth was particularly strong in specialised media, communication services and market research, reflecting earlier investment and operational improvement.'

	2002	Change %	2001
REVENUE	£591.9m	11.9%	£529.0m
GROSS MARGIN	8.3%	n/a	7.6%
UNDERLYING PROFIT BEFORE TAX*	£71.4m	12.8%	£63.3m
*UNDERLYING BASIC EPS**	4.4p	15.8%	3.8p
DIVIDEND	1.25p	4.2%	1.2p

*Underlying results exclude exceptional items and goodwill amortisation.

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Jackson Browne

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Letter to Shareholders

Dear Shareholder

2002 saw a second year of global recession in the advertising market. In the US, the market decline levelled out in the third quarter of 2002 and has subsequently shown signs of recovery. These depressed market conditions were largely as the Group had forecast but it is pleasing to note that our business continued to win substantial new business and grow revenues.

Revenue was up 11.9% to £591.9 million (2001: £529.0 million). Taking out the effect of acquisitions, organic revenue growth was 3.4%. Gross margin improved to 8.3% (2001: 7.6%) reflecting the increasing mix of higher margin services that we can provide. Underlying profit before tax was up 12.8% to £71.4 million (2001: £63.3 million) before exceptional items of £13.5 million (2001: £18.6 million). Underlying diluted EPS increased to 4.3p (2001: 3.8p). The Board is recommending a final dividend of 0.75p per ordinary share, making 1.25p per ordinary share for the full year.

Our financial results demonstrate a marked improvement in the performance of Aegis and reflect management's efforts to both improve revenue generation and run our worldwide operations more efficiently.

In the past 4 years we have seen our business transform from a European media agency into twin global media and market research networks. In Carat we have one of the largest and most respected media services companies in the world whilst Synovate is an exciting new global research brand with operations in 46 countries and growing.

We have built these networks prudently both through internal investment and a buy-and-build approach and we are developing them into truly outstanding global networks with integrated portfolios of first class products and services.

The Group continued to make acquisitions in 2002 that were carefully targeted to meet our strategic objectives. They were aimed at entering new geographic markets in research or media; they added to the development of communication services in established markets; or they extended our capability in specialist media. We are conscious that such acquisitions should be the right fit for our business and we apply careful thought to their evaluation, management and integration.

With the Group's continuing expansion, aligning employees to our goals and aspirations is imperative. In September, we launched our Vision & Values programme which communicated these objectives to staff worldwide and prescribed a way of working that will help us to attain our goals.

Developing a consistent global approach to business means that we pay attention to the transfer of best practice around the Group both operationally and in areas such as commercial engagement, client service, products and solutions. These efforts are commercially sound. They will have the effect of improving client retention and profitability and reducing costs.

If one looks at the skills required to run an effective advertising campaign, media planning and market research provide the key to understanding what motivates consumers and how to effectively target them. These two areas rely on sophisticated tools and processes to provide clients with an objective assessment of how to get the best bang from their marketing buck. At a time when marketers are under increasing pressure to provide real and measurable results from their marketing spend, these skills are increasingly in demand.

The Group's strategy, therefore, is to build highly valuable businesses with leading positions in media and market research and to this end we are making good progress. Although these businesses answer different marketing questions we are now seeing benefits from the two businesses working more closely together. This is apparent on projects demanding ever-higher accuracy in identifying and targeting consumers. We are now developing integrated products and solutions that will extend this capability.

During the year, Carat extended its service offering into related areas such as sponsorship, direct marketing, PR and market modelling. We operate these services within the media business as we believe that a holistic approach provides more opportunity to market multiple services to clients whilst providing them with greater accountability and control over their marketing spend.

Letter to Shareholders

'2002 saw a slight easing of the difficult market conditions that we experienced in 2001. Our planning for 2003 has been built around further gradual market improvement and we expect to see further progress and a satisfactory year for the Group in 2003.'

We also believe that there are opportunities to enhance further the level of service to clients by providing global specialist media capabilities in both outdoor and interactive media. These two areas, communication services and specialist media, represent a significant and growing share of our media revenue.

Although our global media business had to endure a second year of tough markets, we entered 2002 in the knowledge that it would be a difficult year. Indeed, the quiet global media market saw the number of new business pitches down by around 30%.

Carat Europe spent much of the year operating in a market in recession. Given the difficult business backdrop our management throughout the European operations did an outstanding job. Carat US delivered a strong new business performance and, as a result of restructuring, delivered a sharp improvement in profitability. In Asia Pacific we saw our nascent operation grow from strength to strength with an excellent tally of new business wins.

In addition to the Carat network, the Group has a significant number of strong regional media operations. In March 2003 we announced our intention to bring these together, by the third quarter of 2003, under the Vizeum brand, to form a new media network. Recent media industry consolidation has led to a market comprising relatively few large media agencies and it is our belief that this has resulted in a lack of choice for marketers. Other than Carat there are now no independent international media agencies. Vizeum will provide marketers an opportunity to work with a new independent media network with access to world-class systems and the negotiating power of the Aegis Group. We are confident that this will improve revenue growth and lead to higher shareholder value.

The research side of our business made good progress on all fronts against a large and difficult agenda. Its management were tasked with integrating a disparate group of newly acquired research companies; developing a suite of proprietary research solutions; creating a global capability to service international clients; developing specialist capabilities in selected industry sectors and driving up revenue and profitability.

Against that agenda the management team made good progress: the development and global rollout of a number of key proprietary solutions was completed; a regional and global management structure was put in place; integration of new businesses was progressed at several levels; new geographic markets were entered and good progress in the development of healthcare and automotive research was made. In addition they developed new business areas, closely linked to the core research capability including expert panels, CRM management, business intelligence, forecasting, mystery shopping and call centre monitoring. Most importantly our research division was consolidated under a new global brand name, Synovate, in January 2003.

The financial performance of the research business improved, particularly in the second half of the year. Although there is still much to be done to achieve an acceptable return on the funds employed in research, the Board is confident that it has established a long term, growing and satisfactory business asset.

The current network size and capability means that major international clients can now begin to be serviced competitively, however, the Group still expects to make further research acquisitions in 2003.

2002 demonstrated the relative resilience of our business models – the mostly commission based media business and the mostly project based custom market research business. Both businesses were hit early in the downturn but both now appear to be recovering well. The second half of 2002 saw new bookings in research rising and we would expect the research market to show modest improvement in 2003.

The prospects for the business in 2003 will inevitably be affected by market forces. For 2002 our financial planning assumed that the global adspend market would be flat and our assumption proved broadly correct. Our planning for 2003 has been built around some gradual improvement in global adspend levels that are likely to return to positive growth of around 3.1%.

The actions that we have taken and our ability to win new business and grow revenues lead us to be positive about the prospects for the company. Staff throughout the Group responded well to the last two difficult years and the support and cooperation between the businesses has been outstanding. We thank them for their effort and commitment.

Lord Sharman
Chairman

Doug Flynn
Chief Executive Officer

Financial Review

Turnover
Group turnover was £6,233.8 million (2001: £6,095.7 million), a 2.3% increase. Carat North America grew 21.8% and now represents some 26.6% of the Group's media turnover. Despite the advertising recession, all of the 'Big Five' European countries: France, Germany, Italy, Spain, and the UK performed satisfactorily with Germany and Central Europe achieving particularly strong growth. Carat Asia-Pacific is also developing well with turnover up by 35.7%.

Carat's turnover growth was 1.9%. 2002 was a good year for new business with a number of large wins in the North American market.

Revenue
The Group's revenue was £591.9 million (2001: £529.0 million), an increase of 11.9%. The organic growth excluding the effect of acquisitions was 3.4%. Synovate increased its revenue by 14.2%, helped by the expansion of its presence in Europe.

Gross profit
Gross profit was £515.1 million (2001: £463.2 million). Gross margin was 8.3% (2001: 7.6%) reflecting the increased contribution from Synovate and a further underlying increase of gross margin at Carat. In 2002, the Group reclassified internal direct labour costs from cost of sales to operating expenses. This had the effect of increasing gross profit, although net operating profit is not affected. Prior year comparative results have been restated to reflect this change in accounting treatment.

Operating Expenses
Operating expenses (excluding amortisation of goodwill and exceptional items) rose by 11.8% to £438.5 million (2001: £392.1 million). This increase was after restating 2001 comparatives for the reclassification of internal labour costs from cost of sales to operating expenses. Underlying operating costs increased as the Group expanded to deal with the new business won in 2001 and 2002 and as a result of acquisitions. The Group's underlying operating margin (excluding exceptional items and goodwill amortisation) fell to 14.9% (2001: 15.3%) as reduced levels of spend by existing clients caused a squeeze in operating margins in European media.

In addition to the underlying operating costs, the Group incurred exceptional costs of £13.5 million, including provisions against the reduction in value of investments held by eVerger of £4.0 million, property provisions and lease termination costs of £1.0 million, severance payments of £6.2 million and provisions relating to the IMS court case in the US of £6.5 million. These were partly offset by the release of £4.2 million in provisions relating to bad debts in Argentina.

The total staff complement at 31 December 2002 was 7,478 (2001: 6,849). Full time employees within Synovate accounted for 2,872 of this total with Carat representing 4,606.

Financial Highlights

Trading results:	2002	2001
Turnover	**£6,233.8m**	£6,095.7m
Revenue	**£591.9m**	£529.0m
Gross profit	**£515.1m**	£463.2m
% Gross profit to turnover	**8.3%**	7.6%
Underlying operating profit*	**£76.6m**	£71.1m
Underlying profit before tax*	**£71.4m**	£63.3m
Exceptional items	**£(13.5)m**	£(18.6)m
Profit before tax and goodwill	**£57.9m**	£44.7m
Effective underlying tax rate*	**30.6%**	31.9%
Amortisation of goodwill	**£22.2m**	£30.7m
Profit before tax	**£35.7m**	£14.0m
Cash flow:		
Operating cash flow	**£109.3m**	£66.3m
Net debt	**£(120.3)m**	£(126.0)m
Shareholder returns:		
Basic earnings/(loss) per share		
– underlying*	**4.4p**	3.8p
– after exceptional items	**3.3p**	2.3p
– FRS 14	**1.3p**	(0.6)p
Diluted earnings/(loss) per share		
– underlying*	**4.3p**	3.8p
– after exceptional items	**3.3p**	2.3p
– FRS 14	**1.3p**	(0.6)p
Total dividend per share for the year	**1.25p**	1.20p

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

Financial Review

‘The Group will continue to pursue acquisition targets that fit in with its stated strategy to expand its geographical network or support its product and service development.’

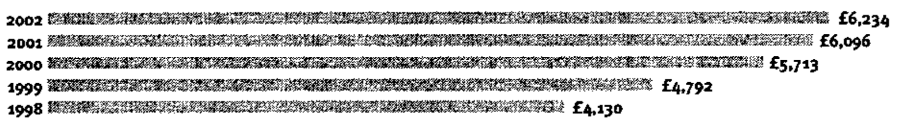
Expenditure on research during 2002 was approximately £24.5 million (2001: £23.2 million). The Group maintains its commitment to achieve operating efficiencies wherever possible.

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

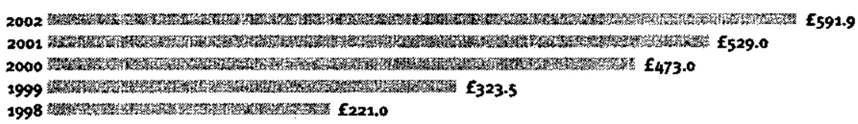
Pre-tax profits
Overall, underlying profit before tax (before goodwill amortisation and exceptional items) was £71.4 million (2001: £63.3 million). The increase was the result of continued volume growth as new business more than offset the fall in income as the Group's existing clients continued to pare back expenditure. The net interest expense was also reduced with lower interest rates and effective management of working capital. After exceptional items of £13.5 million (2001: £18.6 million), the pre-tax profit before goodwill amortisation was £57.9 million (2001: £44.7 million).

Foreign exchange
The majority of the Group's operating profit arises outside the UK. During 2002 approximately 60% of the Group's operating profit from trading companies arose in Euros, and 17% in US$. The average US$ exchange rate fell by 4% in 2002, whilst the average Euro rate strengthened only marginally in the same period. These trends have continued since the year-end. The US$ rate is currently some 10% below the average 2001 rate, while the Euro

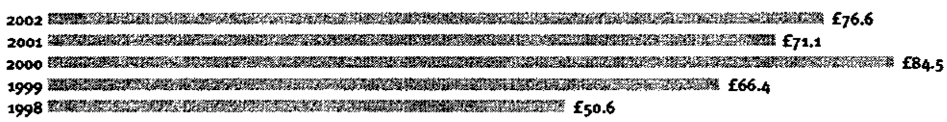
TURNOVER £MILLIONS



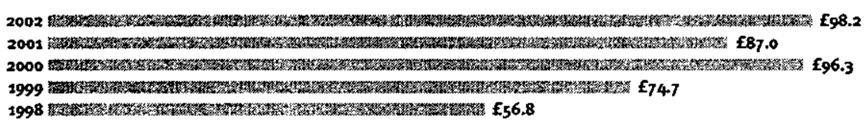
REVENUE £MILLIONS



UNDERLYING* OPERATING PROFIT £MILLIONS



UNDERLYING* PROFIT BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION £MILLIONS



*Underlying results exclude exceptional items and amortisation of goodwill.

is more than 10% higher. Overall, exchange rate movements acted to depress Group revenues slightly in 2002 compared to 2001.

Cash flow, borrowings and interest

Working capital management continues to be a key element of the treasury management programme. Operating cash flow for 2002 was strong at £109.3 million (2001: £66.3 million) equivalent to 151% of underlying operating profit. This strong performance, together with the reduction in the sterling value of our dollar denominated borrowings and a lower rate of capital expenditure, enabled the Group to fund £58.0 million of acquisition payments during the year, and still achieve a reduction in net debt at the year-end.

Net debt at 31 December 2002 was £120.3 million (2001: £126.0 million). The lower level of borrowing together with reduced interest rates, resulted in a lower net interest expense. Net interest payable, excluding the amortisation of debt issue costs, was £3.7 million (2001: £6.1 million).

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

Capital expenditure

The Group's capital expenditure was lower in 2002 at £15.8 million (2001: £29.0 million) as a number of major projects came to an end. However, the Group's commitment to the development of new tools and technologies remains unabated. During the year, the Group invested £8.3 million of capital in new tools and information technology. These investments will keep the Group at the forefront of client service in the media and market research industries.

Taxation

The Group's underlying effective tax rate decreased to 30.6% (2001: 31.9%).

Goodwill

In accordance with FRS 10 the Group amortises goodwill arising on consolidation. The goodwill charge for the year is £22.2 million (2001: £30.7 million). After deduction of the goodwill charge, the Group's pre-tax profits were £35.7 million (2001: £14.0 million). The charge in respect of goodwill amortisation has no effect on the underlying profits of the Group or its cash flow and does not affect its distributable reserves.

Profit for the financial year and shareholders' funds

The profit for the financial year attributable to shareholders (before payment of the dividend on the ordinary shares) was £14.1 million (2001: loss of £7.0 million) Underlying basic earnings per share

Financial Review

'Operating cash flow for 2002 was strong at £109.3 million, equivalent to 151% of underlying operating profit. This strong performance helped the Group to fund £58.0 million of acquisition payments during the year, and still achieve a reduction in net debt at the year-end.'

(before exceptional items and amortisation of goodwill) was 4.4p (2001: 3.8p). Underlying diluted earnings per share was 4.3p (2001: 3.8p). FRS 14 basic earnings per share was 1.3p (2001 loss per share: 0.6p) and diluted loss per share was 1.3p (2001 loss per share: 0.6p).

Dividend

An interim dividend of 0.50 pence per ordinary share was declared and paid in 2002. The Board is recommending a final dividend of 0.75 pence per ordinary share, making 1.25 pence per ordinary share for the full year, an increase of 4.2% over the dividend paid in respect of 2001.

Acquisitions

Details of all of the Group's 2002 material acquisitions are set out in note 20 to the financial statements. The total initial investment in these acquisitions was £32.3 million with estimated deferred consideration payable in cash of £22.6 million, subject to challenging growth objectives. During the year the Company paid £19.9 million in deferred consideration relating to acquisitions in earlier periods. The directors estimate that the total deferred liabilities related to acquisitions amount to £55.8 million (2001: £58.4 million). Approximately £33.0 million may be paid as deferred consideration in 2003. The maximum amount of deferred consideration payable is £127.2 million.

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

Treasury management

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

Internal financial control

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

Conclusion

The Group's results in 2002 were affected by the industry-wide recession, however, the company continues to identify and implement best practice throughout the Group's businesses. These measures will help drive margin growth with the objective of enhancing profits. Cost control remains a key priority as, together with organic revenue growth, they are the Group's principal financial drivers.

Jeremy Hicks
Chief Financial Officer

Operating Review

Media Services
Carat started the year by being named "Global Media Agency of the Year" by AdAge Global and followed this early success by winning net annualised new business billings worth $1,487 million. Taking into account the generally quiet new business market – pitch activity was down by 30% – this was an excellent performance.

By far the largest account win of the period was the Hyundai/Kia business in North America in February. That business is now managed out of Carat's operation in Southern California and includes a full range of media communication services encompassing all media planning and buying activities.

High profile account wins like that of Hyundai/Kia tend to make the front pages of the industry trade press. Less publicised, but equally as important, is the quiet revolution that is taking place in respect of the proportion of Carat's revenues now coming from beyond the traditional core competency of media buying and planning.

For Carat, that has meant developing specialist areas such as interactive, outdoor, sponsorship, direct marketing, PR and market modelling. Carat Interactive is now ranked amongst the world's top three interactive agency networks.

Posterscope, the Group's outdoor media business, is the world's first global outdoor specialist and in 2002 it continued to expand its network presence.

In 2002 these non-traditional business areas equated to around one third of the Group's media revenue and are continuing to grow.

With large marketers' international media budgets reaching in excess of $1 billion, the role of the media agency has grown significantly in importance with the result that media planning has supplanted creative as the top marketing priority for clients. Increasingly, purchasing managers are now commonly involved in the relationship and media productivity has become one of the key drivers in the development of campaigns.

"The end of the 30 second ad is nigh" has become one of the most overused statements in advertising history but it has an element of truth. TV is the shotgun blast to the rapier thrust of a highly targeted plan using a mix of communication channels to reach the audience of one.

As the media landscape has become ever more diverse and fragmented, media planning has become increasingly important to clients. Carat has benefited from this trend as its suite of media tools are widely regarded as amongst the best available.

International Account Management
The strength of the Group's international account management capability has been rewarded by continued growth in the number of international mandates awarded by clients.

Overall, international new business won in 2002 was up by 30% but was, for the most part, made up of existing international business developing into new markets, rather than large consolidation pitches. During the year, existing relationships with clients were extended significantly with 18 international clients awarding new markets to Carat. Key development successes were Beiersdorf, adidas, Danone, Pernod Ricard and Cadbury Schweppes.

In addition to this new business success, Carat International broadened its product offering by launching a range of consultancy services. These new services are

'In an extremely difficult advertising environment Carat retained its position as Europe's pre-eminent media brand and was named agency of the year in France, Italy and Spain.'

aimed at helping marketers to bring coherence, advertising effectiveness, and insight to their multi-market brands and business. Key products include Communication Planning and a range of Insight branded advertising effectiveness products.

Carat International was originally set up to service the global aspirations of Carat's mainly European client base. With the US operation expanding rapidly however, 2002 saw the launch of a dedicated new international management resource in New York. The investment in New York signifies a commitment to supporting major international advertisers based in the US.

Europe

In an extremely difficult advertising environment Carat retained its position as Europe's pre-eminent media brand and was named agency of the year in France, Italy and Spain. Net annualised new business billings totalled $585 million. In February 2002, all the European operations were brought into one cohesive unit reporting to Bruno Kemoun and Eryck Rebbouh.

Carat France, the leading French media agency, continued to grow its revenues through developing a range of marketing services which now account for approximately 40% of its business. With a quiet market, new business was thin on the ground. However, Carat France had a number of prestigious wins including Speedy, Dim, CNAM and Lacoste.

Carat Germany and Central Europe had a good year and exceeded expectations. It is a credit to its management team that the business continued to deliver such a strong new business performance in the face of such poor economic conditions. Major client wins including Bahlsen, Bewag, C&A, Frosta and Turkish Tourism helped Carat continue to build market share in the region.

Carat UK also performed well and confirmed its position as the UK's largest media specialist as well as Carat Interactive becoming Britain's premier online agency. Creating an integrated communications planning service helped garner its three major wins of the year: British Gas, HBOS and the DTLR (Department for Transport, Local Government and the Regions).

Carat Spain maintained its client base and through introducing new clients was able to grow market share in a year that saw a continuing downward trend in advertising spend. New client wins included AXA, IFEMA and MBNA.

Carat Italy had a tough year but overcame the loss of its largest client by winning Enel, the largest utilities business in Italy. Revenues were only marginally down, attesting to the resilience of its management team and their ability to extend existing client accounts to compensate.

Carat's operations in Scandinavia had mixed fortunes and revenues were affected by the poor market conditions. In 2002, Carat Europe management created Carat Nordic by federating all the Scandinavian operations under a single management structure and thereby offering advertisers a true cross-border service. Carat Nordic has been well received by clients and the change has already begun to elicit an improved financial performance.

The Americas

Carat North America had a successful year with the major win of Hyundai/Kia dominating an impressive roster of new client wins which included adidas, Bank One, Pernod Ricard, Orbitz, and UPN. These clients, along with a number of smaller wins, led to an excellent net new business figure of $730 million. Combined with increased spending by existing clients 2002 billings increased by 21.3%. Given a flat US adspend market this is a strong result.

2002 saw Carat launch two new divisions, Carat Trade and Carat Affiliates. Carat Trade is an innovative departure from mainstream media buying and planning, facilitating the barter of clients' distressed stock lines or other assets in return for media space or airtime. The prevailing poor economic conditions in the US have given the nascent business a fillip and it has subsequently evolved into a viable new profit centre for Carat.

Carat Affiliates is a business which plans and buys media for small creative boutique ad agencies around the country. Carat Affiliates is a logical extension of the media services revolution which is spawning the launch of hot new creative agencies around the US.

Carat Interactive also continued to grow and develop into new business areas and now ranks in the top three of global interactive networks according to Mediapost. Two acquisitions made at the end of 2001 and the start of 2002 gave Carat Interactive access to two key areas: award-winning creative ability and eCRM (Customer Relationship Management). As client demand for Carat Interactive's services continued to grow throughout 2002 the business began to repay the Group's investment in it by crossing into profitability ahead of schedule.

The weakness of the Latin American markets has made progress difficult in the region. Argentina continued to be affected by the ongoing economic issues but our exposure is now significantly reduced. Advertising in Venezuela came to a virtual standstill in 2002. Operations in Mexico and Chile continued to make progress.

‘Vizeum will provide more choice to marketers. The new independent media network will have access to the systems and negotiating power of the Aegis Group.’

Asia-Pacific

2002 was a tough and challenging year for Asia-Pacific but it was also a breakthrough year. Having entered the Asia-Pacific market five years ago Carat has now established a network of 27 offices in 12 countries in the region. Furthermore, with a dual focus on driving top line growth and managing bottom line profitability, Carat Asia-Pacific has been turned into a profitable network in less than five years. A tranche of 46 new clients helped towards the impressive $172 million of net new business won during the year.

Carat has started to build a substantial presence in some markets. In China, it is now one of the top five media agencies. In Taiwan, with the success of new business growth, it is now the number one media agency in the market. Given such a strong performance Carat is on track to becoming a significant player in Asia-Pacific.

Vizeum – A New Independent Media Network

In March 2003, Aegis announced plans to launch Vizeum as its new international media network. The Group currently has a significant number of strong local media operations, in addition to the existing Carat network, which will be brought together under the Vizeum brand. Vizeum will provide clients with the opportunity to work with a new independent media agency with access to the world-class systems and negotiating power of the Aegis Group.

The Group has an impressive track record of developing its media business organically. Since the mid-1990's the Carat network has led the market in unbundled media advice, doubling in size organically while many of its competitors merged with each other to maintain market share. Vizeum will bring further choice to advertisers seeking independent advice.

To ensure that both Carat and Vizeum leverage Aegis' established market position, the Group will create a holding company called Aegis Media which will have responsibility for all of its media businesses. Aegis Media will maximise scale benefits by providing a number of shared services and internal resources including media negotiation, information technology and finance. Vizeum will operate alongside Carat within the Aegis Media division and will launch in the Summer of 2003 with a significant European network that will then be developed globally.

Operating Review

'The formation of Synovate as a new global brand galvanised and stimulated staff and clients around the world. The proposition 'Research Reinvented' was eagerly seized upon too.'

Market Research
In 2002, our research business simultaneously went back to its roots and stepped forward into a new era. The formation of Synovate as a new global brand galvanised and stimulated staff and clients around the world. The proposition "Research Reinvented" was eagerly seized upon too. As a consequence there is a new unity throughout the business that is helping to establish its credentials as a true global player.

With strong market positions already established in the US and Asia-Pacific, strengthening the European network was a key priority in 2002 and good progress was made in meeting this objective. Now present in 46 countries it is intended to continue to build Synovate's geographic presence through acquisitions in key European countries. Synovate's international network has been developed rapidly over the past four years and the business now generates over one third of Group revenue. Much work still needs to be done, however, in developing a suite of consistent solutions and extending the business into higher margin areas such as consultancy.

During the year, Synovate's reporting structure was solidified into three regional areas. Robert Philpott was appointed to head the Americas, Nicos Rossides to EMEA and Tim Balbirnie and Peter Snell to Asia-Pacific.

All processes and best practices are being standardised geographically as well as operationally within the network to meet the needs of international marketers. All aspects of the business are also being streamlined including communication strategies, human resources and financial systems. As the new research brand is rolled out in 2003 it will be based around a consistent global service offering using standardised research methodologies, processes and tools. Synovate has successfully developed a broad range of wholly-owned solutions which are currently being rolled out across the network. The ability to offer consistent feedback and reporting to clients around the globe will provide significant benefits to clients as well as enhanced profitability for the business.

Synovate has comprehensive coverage in a wide range of industry sectors. Synovate's automotive division, for example, has relationships with 15 of the 21 major auto manufacturers. As the international capability grows it is expected that clients will extend relationships further.

Synovate's healthcare division is working to strengthen global functionality both through acquisitions and by sharing best practice with Synovate companies throughout the world who specialise in healthcare. Synovate's 'Anti-cancer Drug and Tumour Audit', for example, is currently purchased by over 20 manufacturers of oncology products. In 2002, Synovate worked with many of the world's largest drug companies and is structuring the company to maximise synergies between various groups working on all aspects of the healthcare industry – this includes prescription, OTC, DTC and healthcare insurance.

Americas

The research market in North America was stagnant for the second consecutive year and Synovate's revenues in the region declined by 2.9% to £126.7 million. This small decline was due to weak US Dollar exchange rates which masks a small underlying rise, in particular in the second half of the year. This revenue performance, however, belies the major improvements that have been made to the region's operational efficiency and cost base and these changes have had a significant impact on profitability.

Major clients in the consumer goods sector froze 2002 research spending as the economic climate continued to give them cause for concern. Synovate's focus on developing industry sectors bore fruit, however, with improved performances from the healthcare division, particularly the syndicated Cancer Audit service, and from the automotive division. Furthermore there was strong growth from TeleNation, Synovate's syndicated global omnibus.

During the year Synovate stepped up its development in Latin America. The Brazilian research market continued to show good growth and with the acquisition of Inner Research's operation in Sao Paulo, Synovate is now amongst the top 10 research agencies in Brazil. The growth prospects of Synovate's nascent operation in Argentina has been impacted by ongoing political and economic uncertainty and it proceeds with caution to limit Group exposure in this market.

Operating Review

Synovate further strengthened its position as one of the world leaders in panel research services.
In particular, the Internet Panel saw revenues increase by around 75%. Telephone data collection grew modestly in 2002 but the company is looking at ways to reduce costs and increase efficiency in this area, principally through computer assisted telephone interviewing.

Europe, Middle East and Africa (EMEA)
EMEA saw revenues increase by 158.9% to £42.7 million in 2002 helped by the continued expansion of the network in the region.

Synovate continued to build its European operations through three acquisitions. Market&More, acquired in February, gave it a presence in the Benelux and German markets as well as strengthening its presence in France. Sample Surveys was acquired in the UK in August. Finally, Inner was acquired in September giving Synovate a presence in Spain as well as offices in Portugal, Argentina, Brazil and the Ivory Coast.

Looking at market sectors, Synovate's automotive division showed encouraging growth with the UK, Central/Eastern Europe and the Middle East all performing particularly well.

The successful deployment of branded solutions such as Pinpoint and The Momentum Engine across the EMEA region in 2002 saw a significant increase in sales. Further strong growth in proprietary products is expected in 2003. In addition, the roll out of Synovate's Customer Commitments model in 2003 will end third party licensing with a corresponding benefit to bottom line profitability.

Asia-Pacific
Synovate Asia-Pacific saw revenues grow to £42.0 million representing an increase of 13.2% over prior year.

The main contributors to revenue growth were Korea, China, Taiwan and Philippines. Close monitoring of internal and direct costs, and the implementation of standardised processes also helped to improve profitability over the period.

Within the specialist research divisions, there has been strong revenue growth in the business consulting and agricultural research divisions much of which is coming from local clients. In Japan, Research Fact performed well and is now a major contributor to the expansion of Synovate's activities both within Japan and across Asia-Pacific as a whole.

To remain ahead in the hotly contested Asia-Pacific research market Synovate commenced the introduction of new global solutions for customer satisfaction and brand equity measurement. Another new product introduction is a new interactive data collection terminal (developed by Synovate Americas), which allows graphics, advertisements and other visual material to be shown whilst achieving much faster collection time. Clients appear to be very receptive to this technique, even in less developed markets such as China, Philippines and Indonesia.

The focus on developing synergy across all business units within the Synovate global network has resulted in a number of opportunities to extend relationships with key multinational clients based in the Asia-Pacific region. Synovate has also been working closely with Carat offices on a number of joint pitches which should begin to yield results in 2003.

Board of Directors

Lord Sharman of Redlynch
Non-executive Chairman
Lord Sharman was appointed to the Board on 2 September 1999 and became Chairman on 1 January 2000. He joined KPMG in 1966 where he was elected UK Senior Partner in 1994 and also joined both the International and Executive Committees of KPMG. Between 1997 and 1999 he was Chairman of KPMG Worldwide. In October 1999 he became a member of the House of Lords. He is a non-executive director of BG plc and Reed Elsevier plc and is also Chairman of Le Gavroche Limited. Age 60. (Nomination Committee member).

Douglas Flynn
Chief Executive Officer
Douglas Flynn was appointed to the Board as a non-executive director on 15 May 1998 and became Chief Executive Officer on 1 September 1999. Previously he was Managing Director of News International plc. He has held a number of senior positions in the Australian newspaper industry and has also been a management consultant to a number of media companies. Age 53.

Jeremy Hicks
Chief Financial Officer
Jeremy Hicks was appointed to the Board on 10 April 2000. Jeremy was the former Group Finance Director of Abbot Mead Vickers plc ("AMV"), having joined the Company in 1994. Prior to joining AMV he was a director of Hambros Bank, working with several major companies in their international development. At AMV Jeremy played a key role in the strategic development of the company into one of the largest marketing services groups in the UK. Age 49.

David Verklin
Chief Executive Officer, Carat North America
David Verklin was appointed to the Board on 2 September 1999. He has been Chief Executive Officer of Carat North America since April 1998. Prior to joining the Group he was Managing Director of Hal Riney & Partners having started his career in 1977 at Young & Rubicam. Age 46.

Adrian Chedore
Chief Executive Officer, Synovate
Adrian Chedore was appointed to the Board on 31 December 2001. Adrian is the Chief Executive Officer of Synovate, which was created in March 2001 to enable the Group to market its research capabilities on a global basis. He is also chairman and founder of Asia Market Intelligence a business acquired by Aegis in March 2000. Age 51.

John Amerman
Non-executive
John Amerman was appointed to the Board on 12 December 1997. He is the former Chairman and Chief Executive of Mattel in the USA. Prior to joining Mattel he was President of a division of Warner Lambert. Age 71. (Audit, Remuneration and Nomination Committee member).

Lord Hannay of Chiswick
Non-executive
Lord Hannay was appointed to the Board on 1 January 2000. Until his retirement in 1995, he was a member of the Diplomatic Service, serving in a number of countries before finally holding the posts of Britain's Ambassador to the European Union (1985 to 1990) and Britain's Ambassador to the United Nations (1990 to 1995). In June 2001 he became a member of the House of Lords. Lord Hannay is also a non-executive director of Chime Communications plc. Age 67. (Audit, Remuneration and Nomination Committee member).

Bernard Fournier
Non-executive
Bernard Fournier was appointed to the Board on 1 June 2000. He spent much of his career at Xerox and Rank Xerox holding senior management positions in France, the US and the UK. Between 1989 and 1998, Bernard was Chief Executive of Rank Xerox and Xerox Ltd, continuing as non-executive Chairman until December 2001. He is Chairman of EDHEC, the largest business school in France and is also a member of the advisory board of Auchan. Age 64. (Audit, Remuneration and Nomination Committee member).

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

Bruno Kemoun and Eryck Rebbouh were appointed to the Board on 16 September 1992. They founded 2010 Medias in 1985 in association with Carat France and sold it in 1991 to become shareholders in Aegis. Bruno and Eryck also founded the Carat Expert centres and Carat TV in 1987. They were appointed Joint Chairmen of Carat France in 1995 and Joint Chief Executive Officers of Carat Southern Europe in September 1999. In February 2002 they were given overall responsibility for Europe and were appointed Joint Chief Executive Officers of Carat Europe. Bruno is aged 45 and Eryck aged 46.

Robert Lerwill
Non-executive

Robert Lerwill was appointed to the Board on 1 June 2000. Robert is both Deputy Group Chief Executive, Cable and Wireless plc and Chief Executive, Cable & Wireless Regional. Before joining Cable & Wireless he was Group Finance Director of WPP Group plc between 1986 and 1996. In both positions he has been instrumental in developing major international businesses. Age 51. (Audit and Nomination Committee member).

Directors and advisors >

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

Company Secretary
John Ross

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Stockbrokers
Hoare Govett Limited
250 Bishopsgate
London EC2M 4AA

Report of the directors >

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2002.

Results and dividends
The profit and loss account is set out on page 39 and shows a retained profit for the financial year of £0.1 million (2001: loss of £20.2 million) all of which is transferred to reserves.

An interim dividend of 0.50p per share was paid on 4 October 2002 to ordinary shareholders. The directors recommend a final dividend for the year of 0.75p per share which, if approved at the Annual General Meeting, will be payable on 27 June 2003 to ordinary shareholders registered at 6 June 2003. The total dividend for the year will then amount to 1.25p per share (2001: 1.20p).

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

Review of business and future developments
A review of the business and likely future developments of the Group is given in the Letter to Shareholders on pages 2 to 5 and in the Financial and Operating Reviews on pages 6 to 19.

Research and development
The Group is involved in media research and development in order to offer clients the most advanced media communications services. During the year, the Group spent £24.5 million (2001: £23.2 million) on research and development.

Donations
The Group made charitable donations of £0.2 million (2001: £0.2 million) during the year to support a number of local and national charities.

There were no political donations or expenditures during the year (2001: £nil).

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

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

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

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

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

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

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

Report of the directors (continued) >

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

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

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

At 31 December 2002, the Group had 61 days purchases outstanding (2001: 64 days). The creditor day analysis is not applicable to the holding company.

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

As detailed in last year's report, Ray Kelly resigned on 8 March 2002.

The interests of the directors in the shares of the Company are shown in the Remuneration Report on page 34.

Re-election of directors
In accordance with the Articles of Association, Doug Flynn and David Verklin retire by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting. John Amerman, who is aged 71, will also retire by rotation and offer himself for re-election. He was appointed to the board on 12 December 1997 and in the opinion of the directors brings invaluable experience to the board.

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

Substantial shareholdings
At 25 March 2003 the Company had been notified of the following interests of 3% or more in its ordinary shares:

	Number of Shares	%
Deutsche Bank AG & subsidiaries	189,107,030	17.12
Harris Associates LP	131,753,400	11.93
Aviva plc	66,461,869	6.02
AGF Funds Inc	58,016,800	5.25
M&G Investment Management Ltd	40,073,625	3.62
FMR Corp (Fidelity Investments)	37,854,068	3.43
Legal & General Investment Management Ltd	33,172,194	3.00

Share capital
Details of share capital movements (authorised and issued) are given in note 18 to the financial statements on page 56.

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

- Resolution 7 is seeking approval of the Remuneration Report which is set out on pages 29 to 36.
- Resolution 8 is to grant to the directors limited authority to allot securities in the Company up to an aggregate amount of £18,409,937. If passed, the resolution will enable the directors to allot a maximum of 368,198,740 ordinary shares which represent 33.3% of the issued ordinary share capital as at 25 March 2003. Save for shares to be issued to satisfy existing legal obligations, the directors have no present intention of exercising the authority which would be conferred by this resolution.

- Resolution 9 is to confer on the directors a restricted power to allot shares for cash without complying with statutory pre-emption rights. If passed, the disapplication will cover issues by way of rights and other issues up to an aggregate nominal value of £2,761,269 (which such amount represents 55,225,380 ordinary shares amounting to 5% of the issued ordinary share capital of the Company as at 25 March 2003). In relation to the exercise of this authority, the Company will have regard to the guidelines published by the investment committees of both the Association of British Insurers and the National Association of Pension Funds.

- Resolution 10 is to confer authority on the Company to purchase its own shares. No purchases have been made to the date of this report and there are no outstanding contracts to purchase shares as of this date. If granted the directors will exercise the authority only if in their judgement it is in the best interests of shareholders generally and where exercise should result in an improvement in earnings per share for the remaining shareholders. If passed, the resolution will enable the Company to purchase up to 55,229,813 ordinary shares (5% of the issued ordinary share capital as at 25 March 2003). The maximum price at which any share may be purchased is the price equal to 5% above the middle market quotations of such share as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the date of such purchase, exclusive of expenses, and the minimum price at which any share may be purchased is the par value of such share. The number of options for ordinary shares which are outstanding at 25 March 2003, the latest practical date prior to publication of the Annual Report and Accounts, was 98,199,420 (8.9% of the present issued ordinary share capital). If the proposed authority for the Company to purchase its own shares is used in full, the total number of such options will represent 9.4% of the issued ordinary share capital.

- Resolution 11 is to create a new Executive Share Option Scheme, details of which are given in the accompanying Circular dated 26 March 2003.

- Resolution 12 is to create a new Performance Share Plan, details of which are given in the accompanying Circular dated 26 March 2003.

The authorities sought by resolutions 8, 9 and 10 are to replace the existing authorities which expire at the conclusion of the Annual General Meeting and these authorities will lapse at the conclusion of the next Annual General Meeting.

Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 5 February 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to appoint PricewaterhouseCoopers LLP as auditors to the Company and to authorise the directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting. Special notice has been given to the Company of the intention to propose this resolution.

Directors' responsibilities

The following statement, which should be read in conjunction with the auditors' statement of auditors' responsibilities set out on page 37, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of that financial year and of the profit or loss of the Group for that financial year. The directors consider that in preparing the financial statements on pages 39 to 66, the Company and the Group have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and that all accounting standards which they consider to be applicable have been followed, subject to any explanations disclosed in the notes to the financial statements.

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

John Ross
Company Secretary
26 March 2003

Corporate governance >

The Board supports the highest standards of corporate governance and has complied throughout the period under review with the applicable principles and provisions set out in the Combined Code as incorporated into the UK Listing Authority Listing Requirements, save as detailed below:

- The executive directors have rolling service contracts with notice periods of between six months and two years (Code provision B.1.7). The Board believes that service contracts with notice periods in excess of one year are in line with comparable agreements within the industry and reflect the particular contribution and expertise of the executive directors in question.
- For part of the year Lord Sharman and John Amerman had no specific term of appointment (Code provision A.6.1). This situation has now been remedied with both directors having three year terms of appointment.

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

The Board has a formal induction plan for non-executive directors to ensure that a comprehensive familiarisation programme is in place. Ongoing training needs for all directors are met as required. The Board meets at least seven times a year, and more frequently when business needs require. One meeting is devoted entirely to the development of the Company's strategy. The Board is supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties. Board meetings follow a formal agenda and the Board has a schedule of matters specifically reserved to it for decision. All directors have access to the advice and services of the Company Secretary and, if required, external professional advice at the Company's expense.

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

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

Audit Committee

The Audit Committee comprises Robert Lerwill (chairman), John Amerman, Bernard Fournier and Lord Hannay. The Chief Financial Officer and the external auditors attend all meetings. Although not a member of the Committee, the Chief Executive Officer may attend meetings. The Committee has, and also uses, the opportunity to meet with the auditors, without management present.

The Committee meets three times a year:

- To review the half-year interim results and the findings of the auditors' review and to discuss the scope of the current year full audit;
- To review internal risk management and controls; and
- Before the release of the preliminary announcement of the annual results to review the year's results and audit findings.

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

The Board considers that, through the Audit Committee, it has an objective and professional relationship with the external auditors.

During the year the Board tasked the Audit Committee, with the assistance of external advisors, to undertake an investigation into the strength of current procedures within the Group for internal risk management and control. The key recommendations from this review are detailed further under the section on Internal Control and Risk Management on page 27.

Corporate governance (continued) >

Remuneration Committee
The Remuneration Committee comprises Lord Hannay (chairman), John Amerman and Bernard Fournier and meets periodically as required but not less than twice a year. It is responsible for overseeing the policy regarding executive remuneration and for determining the remuneration packages for the Group's executive directors. It is also responsible for reviewing incentive schemes for the Group as a whole.

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

The Committee will also be empowered to approve awards under the proposed new Executive Share Option Scheme and Performance Share Plan.

Nomination Committee
The Nomination Committee comprises all of the non-executive directors and is chaired by Lord Sharman. Although not a member of the Committee, the Chief Executive Officer may attend meetings. The Committee meets as and when necessary and has responsibility for reviewing the board structure, size and composition, and for identifying and nominating to the Board candidates for appointment as directors.

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

The Audit Committee reviews the effectiveness of the risk management process and significant risk issues are referred to the Board for consideration. As outlined in the section describing the activities of the Committee on page 26, a detailed review of internal risk and control processes was undertaken, with the assistance of external advisors, during the year. The recommendations from this review were that the Company should:

- formulate a Group Risk Policy and create a Group Risk Committee;
- appoint a Group Risk Manager;
- introduce a formal Risk Self Assessment system for use around the Group;
- retain and extend the existing financial peer group review processes to cover all critical internal controls; and
- consider initiating a "whistleblowing" procedure.

Following recommendation from the Audit Committee the Board instructed that these matters be implemented and a Risk Committee has been formed in the first quarter of 2003. The Committee comprises the Chief Financial Officer, a newly appointed Group Risk Manager, senior representatives of key Group functions and a senior operational executive from each of Carat and Synovate. The Risk Committee reports to the Audit Committee.

The chairman of the Audit Committee reports the outcome of the Audit Committee meetings to the Board and will also report the outcome of the Risk Committee meetings. The Board receives the minutes of the Audit Committee meetings and will also receive the minutes of the Risk Committee meetings.

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

Corporate governance (continued) >

The key procedures in place are as follows:

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

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

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

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

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

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

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

The Board confirms that it has reviewed the effectiveness of the system of internal controls and that there are ongoing processes for identifying, evaluating and managing the significant risks faced by the Group. These processes accord with provision D.2.1 of the Combined Code.

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

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

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

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

John Ross
Company Secretary
26 March 2003

Remuneration report >

The Remuneration Report is presented to shareholders by the Board and sets out the remuneration policies operated by the Company and details the remuneration of each director. The Remuneration Report will be put to the Annual General Meeting for approval by the shareholders.

The Board has an established Remuneration Committee, the members of which are disclosed on page 27.

New Bridge Street Consultants have been appointed during the year by the Remuneration Committee to provide general advice on directors' remuneration and specifically to advise on, and assist with, the introduction of the proposed new Executive Share Option Scheme and the Performance Share Plan. New Bridge Street Consultants provide no other services to the Company.

Remuneration policy

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

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

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

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

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

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

Remuneration package of executive directors

The main components are:

- *Base salary and benefits*
  Base salary and benefits are determined on an annual basis by the Committee after a review taking into account the individual's performance, market trends and the performance of the Group as a whole and, where relevant, the performance of the business for which the executive is responsible. For guidance, the Committee has regard to available research and published remuneration information on companies within the same industry and markets in the countries in which the executives are based. A summary of the benefits payable to executive directors is given on page 33.

- *Bonus schemes*
  All of the executive directors participate in a Group Annual Cash Bonus Scheme based upon achievement of individual objectives and financial targets (profit before tax and management charges) linked to Group and, in the case of directors with operational responsibilities, regional performance. This may result in the payment of cash bonuses of up to 25% of base salary for on-target financial performance, with the opportunity to earn higher bonuses for exceptional performance.

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

Remuneration report (continued) >

- *Share-based incentives*

a Executive Share Option Schemes
Grants of options have been made by the Committee under the Executive Share Option Schemes which were introduced in 1995 (the "1995 schemes") and the Aegis Group Management Incentive Scheme which was adopted in May 1998 (the "MIS scheme"). Options under the 1995 schemes are granted on an annual phased basis. Options under the MIS scheme have been used by the Committee to further incentivise executive directors and other senior executives as and when the Committee considers necessary. Details of options granted to executive directors in 2002 and previous years, are set out on pages 34 and 35. Exercise of options is subject to the achievement of specific, demanding performance conditions, achievement of which will be checked by New Bridge Street Consultants, in their capacity as advisers to the Committee.

The following performance conditions apply to options granted under the 1995 schemes:

- That Earnings Per Share growth over the performance period exceeds a composite retail price index plus 5% per annum. The composite index is determined by weighting indices calculated for selective countries to approximate the source of the Group's turnover. The country indices are calculated from official retail inflation data, adjusted for exchange rate fluctuations against sterling; and
- That the Company's total shareholder return ("TSR") performance must be greater than that of the FTSE 100 company ranked 33rd over the performance period.

The following performance conditions apply to options granted under the MIS scheme:

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

b Leveraged Investment Plan
Under the Aegis Group Leveraged Investment Plan (the "LIP") executive directors and other senior executives may lodge shares and/or vested options with the trustees of the plan. These are then held by the trustees over a three year performance period. At the end of the performance period the executive's shares and/or options will be released and a matching award of additional shares may be made to the executive. The extent of any matching award of additional shares will be dependent on the achievement by the Company of a return on earnings before tax, depreciation and amortisation performance condition against an industry comparator group. Awards of matching shares are made on a sliding scale.

The following performance conditions apply to any award of Matching Shares under the LIP:

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

The comparator group of companies comprises:

Cordiant Communications Group plc	Publicis Group S.A.
Dentsu Inc.	Taylor Nelson Sofres plc
Havas S.A.	The Interpublic Group of Companies Inc.
Omnicom Group Inc.	WPP Group plc

New Executive Share Incentive Schemes
Following a review of the current, aforementioned, incentive schemes, the Committee has concluded that shareholders' approval should be sought at the 2003 Annual General Meeting for the adoption of a new Executive Share Option Scheme and a new Performance Share Plan. The proposed new schemes will replace all of the existing schemes and are designed to reflect changes in the guidelines issued by institutional shareholders and developments in market practice. No further awards will be made under the existing schemes, although awards granted in the past will continue to be exercisable in accordance with the rules of each respective scheme.

Remuneration report (continued) >

Summaries of the proposed new schemes are set out in the accompanying Circular dated 26 March 2003 and the key points are as follows:

Executive Share Option Scheme

- The option price will be the market value of the Company's shares shortly before options are granted.
- The value of the shares under options granted to an executive in any financial year may not normally exceed three times basic salary.
- Exercise of options to be granted in 2003 will be based upon the Company's earnings per share ("EPS") growth relative to inflation ("RPI"), and the following performance conditions will apply:

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

- Performance conditions will be tested after three years, from the year in which awards are made. If they are not satisfied at the end of the third year, the performance conditions may be retested after a further one year (from the same fixed base point) but to the extent that they are not then met, the options will lapse.
- The number of new issue shares which may be allocated over a 10 year period under this scheme and any other share schemes operated by the Company will be limited to 16% of the issued ordinary share capital from time to time.

Performance Share Plan

- The value of shares which may be conditionally awarded to an executive in any financial year may not normally exceed two times basic salary.
- The extent to which awards to be granted in 2003 vest will be determined partly by reference to the Company's total shareholder return ("TSR") performance relative to a group of similar businesses and partly by reference to the Company's EPS growth relative to RPI. The following TSR targets will apply:

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

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

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

The next table sets out the EPS performance targets:

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

Remuneration report (continued) >

- These performance conditions will be tested after three financial years beginning with the year in which awards are made. There will be no provision for retesting. To the extent that the performance conditions are not satisfied, the awards will lapse.
- The Committee believes that TSR and EPS growth are the most appropriate methods of assessing the Company's relative returns to shareholders and its underlying financial performance. The assessment of these performance conditions will be carried out by New Bridge Street Consultants, in their capacity as advisers to the Committee.

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

Service contracts
Details of the service contracts of those who served as executive directors during the year are as follows:

All directors have rolling service contracts which expire at normal retirement age unless terminated beforehand in accordance with the terms of the individual contract.

Name	Contract date	Notice period from Company	Notice period from director
Doug Flynn	22.10.99	24 months	6 months
Adrian Chedore	21.2.03	12 months (or 24 months in the event of a change of control of the Company)	6 months
Jeremy Hicks	9.2.01	12 months (or 24 months in the event of a change of control of the Company)	6 months
Bruno Kemoun	31.7.91	6 months	6 months
Eryck Rebbouh	31.7.91	6 months	6 months
David Verklin	1.7.98	6 months (or 12 months in the event of a change of control of the Company)	6 months

Name	Contractual termination payments in addition to any payments in respect of notice periods
Doug Flynn	An amount equal to two times any bonus received in the previous 12 months. In the event of a change of control Doug Flynn may, within 6 months, give notice to terminate his employment and receive a payment equal to 24 months salary and benefits plus an amount equal to any bonus received in the previous 12 months.
Bruno Kemoun	An amount equal to 18 months salary and benefits.
Eryck Rebbouh	An amount equal to 18 months salary and benefits.
David Verklin	An amount equal to 12 months salary and benefits.

Note:
Ray Kelly left the Company and resigned as a director on 8 March 2002 having been on a service contract with a 12 months notice period from the Company. The termination payment made to him is shown in the Directors' remuneration table on page 33.

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

Non-executive directors
Non-executive directors are appointed for a term of three years. Renewal of appointments is not automatic. The fees of the non-executive directors are determined at a Board meeting at which the non-executive directors do not vote. Fees are disclosed on page 33. Non-executive directors do not receive benefits or pension contributions and do not participate in any Group incentive scheme.

Audited directors' remuneration

	Basic salary £'000	Fees £'000	Benefits £'000 (a)	Annual Cash Bonus £'000 (b)	Deferred Annual Bonus £'000 (b)	Compen-sation for loss of office £'000	Total 2002 £'000	Total 2001 £'000	Pensions 2002 £'000	Pensions 2001 £'000
John Amerman	–	30	–	–	–	–	30	29	–	–
Adrian Chedore	250	–	102	130	128	–	610	–	13	–
Pat Doble (resigned 31.12.01)	–	–	–	–	–	–	–	338	–	36
Douglas Flynn	560	–	27	280	–	–	867	565	282	270
Bernard Fournier	–	30	–	–	–	–	30	29	–	–
Lord Hannay	–	30	–	–	–	–	30	29	–	–
Jeremy Hicks	280	–	28	126	–	–	434	297	42	40
Raymond Kelly (resigned 8.3.02)	29	–	15	–	–	449	493	344	3	37
Bruno Kemoun (c)	389	–	3	132	–	–	524	299	–	–
Robert Lerwill	–	30	–	–	–	–	30	29	–	–
Eryck Rebbouh (c)	389	–	3	132	–	–	524	299	–	–
Lord Sharman	–	120	–	–	–	–	120	115	–	–
David Verklin	425	–	22	141	–	–	588	771	2	4
Totals	2,322	240	200	941	128	449	4,280	3,144	342	387

Notes:

a Benefits relate to the provision of a car, life assurance, disability and health insurance and, in the case of Adrian Chedore, a housing allowance of £80,000.

b The main terms of the bonus schemes are summarized on page 29.

c Of the figure stated for basic salary, £68,000 will be paid in 2003. The annual cash bonus of £132,000 will also be paid in 2003.

At 31 December 2002 there were four directors (2001: five) who had benefits accruing under money purchase schemes. Figures shown for pensions are the contributions paid by the Company to both approved and unapproved retirement benefits schemes.

None of the directors was materially or beneficially interested in any contract of significance with the Company or any of its subsidiary undertakings during or at the end of the financial year ended 31 December 2002.

Consultancy agreement with former director

With effect from 8 April 2002 a consultancy agreement was entered into for a period of one year with Pat Doble (retired on 31 December 2002). Under the agreement Mrs Doble provides marketing services and receives a consultancy fee of £120,000.

Pension to former director

It was reported in the 1999 Report and Accounts that the Company had agreed to pay a pension to the wife of the former chairman, Frank Law, in the event that he pre-deceased her. During the year the Remuneration Committee reviewed this matter and, after taking advice from actuaries, it has been agreed that an index-linked pension of £70,000 per annum be paid to Mrs Law from 1 January 2003.

Remuneration report (continued) >

Directors' share interests

The interests of the directors at the year end, all of which are beneficial, were as follows:

		Ordinary 5p shares		
		25 March *2003*	31 December *2002*	1 January *2002*
John Amerman		10,429	10,429	10,429
Adrian Chedore		–	–	–
Douglas Flynn	a	25,000	25,000	25,000
Bernard Fournier		10,000	10,000	10,000
Lord Hannay		10,000	10,000	10,000
Jeremy Hicks	b	70,000	70,000	35,000
Bruno Kemoun		786,432	786,432	786,432
Robert Lerwill		20,000	20,000	20,000
Eryck Rebbouh		786,432	786,432	786,432
Lord Sharman		25,000	25,000	25,000
David Verklin		–	–	–

Notes:

a 25,000 shares lodged with the LIP at all times during the year.

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

The middle market price of the ordinary 5p shares as derived from the Stock Exchange Daily Official List on 31 December 2002 was 78.5p and the range during the year was 125p to 57.5p. The share price on 25 March 2003, the latest practicable date prior to publication of the Annual Report and Accounts, was 60p.

Audited directors' share option interests

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

Director		Options held at 1.1.02	Granted during 2002	Lapsed during 2002	Exercised during 2002	Options held at 31.12.02	Exercise price	Date from which exercisable	Expiry date
Douglas Flynn	*	5,000,000	–	–	–	5,000,000	138.25p	09.09.02	08.09.09
		642,857	–	–	–	642,857	140p	22.10.02	21.10.09
		233,100	–	–	–	233,100	214.5p	09.03.03	08.03.10
	*	*2,500,000*	–	–	–	*2,500,000*	*219.5p*	*10.03.03*	*09.03.10*
		450,939	–	–	–	450,939	119.75p	23.03.04	22.03.11
		–	137,725	–	–	137,725	109p	14.03.05	13.03.12
	*	–	1,000,000	–	–	1,000,000	109p	14.03.05	13.03.12
Adrian Chedore	*	–	1,000,000	–	–	1,000,000	109p	14.03.05	13.03.12
Jeremy Hicks	*	2,000,000	–	–	–	2,000,000	170p	08.05.03	07.05.10
		73,529	–	–	–	73,529	170p	08.05.03	07.05.10
	*	750,000	–	–	–	750,000	125.7p	17.04.04	16.04.11
		112,734	–	–	–	112,734	119.75p	23.03.04	22.03.11
		–	60,255	–	–	60,255	109p	14.03.05	13.03.12
	*	–	500,000	–	–	500,000	109p	14.03.05	13.03.12

Director		Options held at 1.1.02	Granted during 2002	Lapsed during 2002	Exercised during 2002	Options held at 31.12.02	Exercise price	Date from which exercisable	Expiry date
Raymond Kelly	a	127,594	–	–	127,594	–	98.7p	02.06.01	01.06.08
(resigned 8.3.02)		110,905	–	110,905	–	–	121.5p	17.03.02	16.03.09
	*	1,500,000	–	1,500,000	–	–	138.25p	09.09.02	08.09.09
		69,231	–	69,231	–	–	214.5p	09.03.03	08.03.10
		133,611	–	133,611	–	–	119.75p	23.03.04	22.03.11
Bruno Kemoun		510,997	–	–	–	510,997	52p	02.07.99	01.07.06
		364,050	–	–	–	364,050	63.75p	08.07.00	07.07.07
	*	2,000,000	–	–	–	2,000,000	87p	15.05.01	14.05.08
		128,697	–	–	–	128,697	98.75p	02.06.01	01.06.08
		112,071	–	–	–	112,071	121.5p	17.03.02	16.03.09
	*	1,500,000	–	–	–	1,500,000	138.25p	09.09.02	08.09.09
		62,361	–	–	–	62,361	214.5p	09.03.03	08.03.10
		124,565	–	–	–	124,565	119.75p	23.03.04	22.03.11
		–	75,539	–	–	75,539	109p	14.03.05	13.03.12
	*	–	1,000,000	–	–	1,000,000	109p	14.03.05	13.03.12
Eryck Rebbouh		510,997	–	–	–	510,997	52p	02.07.99	01.07.06
		364,050	–	–	–	364,050	63.75p	08.07.00	07.07.07
	*	2,000,000	–	–	–	2,000,000	87p	15.05.01	14.05.08
		128,697	–	–	–	128,697	98.75p	02.06.01	01.06.08
		112,071	–	–	–	112,071	121.5p	17.03.02	16.03.09
	*	1,500,000	–	–	–	1,500,000	138.25p	09.09.02	08.09.09
		62,361	–	–	–	62,361	214.5p	09.03.03	08.03.10
		124,565	–	–	–	124,565	119.75p	23.03.04	22.03.11
		–	75,539	–	–	75,539	109p	14.03.05	13.03.12
	*	–	1,000,000	–	–	1,000,000	109p	14.03.05	13.03.12
David Verklin		641,398	–	–	–	641,398	80.5p	09.04.01	08.04.08
	*	2,000,000	–	–	–	2,000,000	87p	15.05.01	14.05.08
		271,088	–	–	–	271,088	121.5p	17.03.02	16.03.09
	*	1,500,000	–	–	–	1,500,000	138.25p	09.09.02	08.09.09
		82,513	–	–	–	82,513	214.5p	09.03.03	08.03.10
		173,056	–	–	–	173,056	119.75p	23.03.04	22.03.11
		–	79,497	–	–	79,497	109p	14.03.05	13.03.12
	*	–	1,000,000	–	–	1,000,000	109p	14.03.05	13.03.12
Totals		27,978,037	5,928,555	1,813,747	127,594	31,965,251			

Notes:
All of the above options were granted for nil consideration.
* Options granted under the MIS scheme. All other options are granted under the 1995 schemes.
a Options were exercised and shares were sold at 111p per share, realising a gain of £15,630.

Other than as noted above, no directors or members of their immediate families have exercised or sold options during the period ended 25 March 2003. In addition, other than as noted above, no options have been granted, expired or lapsed during the year in respect of the directors.

Remuneration report (continued) >

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

Name	Maximum potential award of Matching Shares at 1.1.02	Awards granted during year	Awards lapsed during year	Maximum potential award of Matching Shares at 31.12.02	Performance period
Douglas Flynn	37,500	nil	nil	37,500	19.10.01 to 19.10.04
Jeremy Hicks	52,500	nil	nil	52,500	19.10.01 to 19.10.04
Bruno Kemoun	193,045	nil	nil	193,045	19.10.01 to 19.10.04
Eryck Rebbouh	193,045	nil	nil	193,045	19.10.01 to 19.10.04
David Verklin	480,000	nil	nil	480,000	19.10.01 to 19.10.04

The number of shares shown represents the maximum number of Matching Shares which is capable of vesting at the end of the performance period, if the performance condition is satisfied to the fullest extent (see page 30).

Shareholding guidelines
The Company is introducing revised share ownership guidelines to operate in tandem with the proposed new executive share incentive schemes as detailed in the accompanying Circular dated 26 March 2003. Executive directors and other senior executives will be required to retain at least 35% (50% in the case of the Chief Executive Officer) of any profit made (after paying the exercise price and any tax liability) on the exercise of options and the vesting of any Performance Share Plan awards, until they have built a shareholding equal to one times basic salary (two times basic salary for executive directors of the Company). No further options or Performance Share Plan awards will be granted unless executives retain shares in accordance with these guidelines.

Performance graph
The following graph illustrates the Company's total shareholder return since 1 January 1998 relative to the FTSE Media & Entertainment Index, in accordance with paragraph 4 of the Directors' Remuneration Report Regulations 2002. Aegis Group plc is a member of the FTSE Media & Entertainment Index and the Remuneration Committee considers that a comparison of the Company's total shareholder return relative to similar businesses is more appropriate than a comparison with a general FTSE Index, in order to reduce the impact of general stock market trends.

This graph looks at the value, by the end of 2002, of £100 invested in Aegis Group plc on 31 December 1997 compared with that of £100 invested in the FTSE Media & Entertainment Index. The other points plotted are the values at interim financial year-ends.

Lord Hannay
Chairman of the Remuneration Committee
26 March 2003

David Hannay

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

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

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

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

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

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

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

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

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

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

Opinion

In our opinion:

- The financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2002 and of the profit and cash flows of the Group for the year then ended;
- The financial statements have been properly prepared in accordance with the Companies Act 1985; and
- Those parts of the Remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
26 March 2003

Consolidated profit and loss account >

For the year ended 31 December 2002

	Notes	2002 £m	2002 £m	As Restated (note 1) 2001 £m
Turnover:				
Continuing operations			6,099.0	6,095.7
Acquisitions			134.8	–
Turnover	1, 2		6,233.8	6,095.7
Cost of sales – payments to the media		(5,641.9)	(5,641.9)	(5,566.7)
Revenue	6		591.9	529.0
Cost of sales – other direct costs		(76.8)	(76.8)	(65.8)
Cost of sales – total		(5,718.7)		(5,632.5)
Gross profit	6		515.1	463.2
Operating expenses before amortisation of goodwill and exceptional items		(438.5)		(392.1)
Exceptional operating expenses	3	(9.5)		(16.0)
Amortisation of goodwill	10	(21.5)		(30.7)
Operating expenses	6		(469.5)	(438.8)
Group operating profit:				
Continuing operations		38.9		24.4
Acquisitions		6.7		–
Group operating profit			45.6	24.4
Group share of operating loss in joint venture and associated undertakings before exceptional item (after £0.7m (2001: £nil) goodwill amortisation)		(1.5)		(1.5)
Exceptional item – provision against joint venture investment	3	(4.0)		(2.6)
Group share of operating loss in joint venture and associated undertakings			(5.5)	(4.1)
Interest and similar items:				
– interest receivable	5	7.1		8.5
– interest payable	5	(10.8)		(14.6)
– amortisation of refinancing costs	5	(0.7)		(0.2)
Net interest payable			(4.4)	(6.3)
Profit on ordinary activities before taxation	2, 6		35.7	14.0
Tax on profit on ordinary activities	7		(20.2)	(19.6)
Profit/(loss) on ordinary activities after taxation			15.5	(5.6)
Equity minority interests			(1.4)	(1.4)
Profit/(loss) attributable to members of the parent company			14.1	(7.0)
Ordinary dividends	8		(14.0)	(13.2)
Retained profit/(loss) for the year			0.1	(20.2)
Earnings/(loss) per ordinary share:	9			
Basic earnings/(loss) per share			1.3p	(0.6)p
Underlying basic earnings per share*			4.4p	3.8p
Underlying diluted earnings per share*			4.3p	3.8p
Diluted earnings/(loss) per share			1.3p	(0.6)p

*As detailed in note 9, underlying earnings per share excludes amortisation of goodwill of £22.2 million (2001: £30.7 million) and £11.8 million (net of tax) of exceptional items in 2002 (2001: £18.0 million), in order to eliminate the effect of these distorting items.

Consolidated statement of total recognised gains and losses >

For the year ended 31 December 2002

	Note	2002 £m	2001 £m
Profit/(loss) for the year		**14.1**	(7.0)
Currency translation differences on foreign currency investments	19	**3.6**	(8.8)
Total recognised gains and losses for the year		**17.7**	(15.8)

Reconciliation of movements in equity shareholders' funds >

For the year ended 31 December 2002

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Profit/(loss) for the year	**14.1**	(7.0)	**(15.3)**	7.2
Ordinary dividends	**(14.0)**	(13.2)	**(14.0)**	(13.2)
	0.1	(20.2)	**(29.3)**	(6.0)
Issue of shares by the Company (note 18)	**1.9**	14.7	**1.9**	14.7
Currency translation differences on foreign currency investments	**3.6**	(8.8)	**-**	-
Net increase/(decrease) in equity shareholders' funds	**5.6**	(14.3)	**(27.4)**	8.7
Opening equity shareholders' funds	**112.5**	126.8	**427.4**	418.7
Closing equity shareholders' funds	**118.1**	112.5	**400.0**	427.4

Note of historical cost profits and losses >

For the year ended 31 December 2002

There is no material difference between the reported results for the years ended 31 December 2002 and 2001 and the results for those years restated on an unmodified historical cost basis.

Balance sheets >

At 31 December 2002

	Notes	Group 2002 £m	Group As Restated (note 1) 2001 £m	Company 2002 £m	Company 2001 £m
Fixed assets					
Intangible fixed assets	10	**379.1**	338.8	**-**	–
Tangible fixed assets	11	**52.1**	59.4	**4.0**	4.8
Investment in joint venture:	12				
Share of gross assets		**17.7**	18.3	**-**	–
Share of gross liabilities		**(6.7)**	(2.7)	**-**	–
		11.0	15.6	**-**	–
Investments in associated undertakings	12	**8.9**	11.3	**-**	–
Other fixed asset investments	12	**2.8**	2.9	**780.1**	657.6
		453.9	428.0	**784.1**	662.4
Current assets					
Debtors	13	**1,010.7**	1,003.6	**116.3**	166.5
Stock: work in progress		**5.2**	4.8	**-**	–
Investments	14	**-**	2.0	**-**	–
Cash at bank and in hand		**122.2**	60.7	**-**	–
		1,138.1	1,071.1	**116.3**	166.5
Creditors: amounts falling due within one year	15	**(1,230.3)**	(1,231.4)	**(294.3)**	(288.7)
Net current liabilities		**(92.2)**	(160.3)	**(178.0)**	(122.2)
Total assets less current liabilities		**361.7**	267.7	**606.1**	540.2
Creditors: amounts falling due after more than one year	16	**(238.1)**	(151.5)	**(206.1)**	(112.8)
Provisions for liabilities and charges	17	**(1.6)**	(1.1)	**-**	–
Net assets		**122.0**	115.1	**400.0**	427.4
Capital and reserves					
Issued, allotted, called up and fully paid share capital	18	**55.2**	55.1	**55.2**	55.1
Share premium account	19	**199.8**	198.0	**199.8**	198.0
Capital redemption reserve	19	**0.2**	0.2	**0.2**	0.2
Merger reserve	19	**-**	–	**13.0**	13.0
Profit and loss account	19	**(137.1)**	(140.8)	**131.8**	161.1
Equity shareholders' funds		**118.1**	112.5	**400.0**	427.4
Equity minority interests		**3.9**	2.6	**-**	–
Total capital employed		**122.0**	115.1	**400.0**	427.4

The financial statements on pages 39 to 66 were approved by the board of directors on 26 March 2003 and signed on their behalf by:

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

Consolidated cash flow statement >

For the year ended 31 December 2002

	Notes	2002 £m	2001 £m
Net cash flow from operating activities		**109.3**	66.3
Returns on investments and servicing of finance			
Interest received		**7.0**	8.4
Interest paid		**(9.9)**	(14.6)
Interest element of finance lease rental payments		**-**	(0.1)
Dividends paid to minority interests		**(1.0)**	(0.6)
Net cash outflow for returns on investments and servicing of finance		**(3.9)**	(6.9)
Taxation		**(24.2)**	(22.9)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(15.8)**	(29.0)
Sale of tangible fixed assets		**0.7**	0.6
Net cash flow for capital expenditure and financial investment		**(15.1)**	(28.4)
Acquisitions and disposals			
Purchase of subsidiary undertakings	20	**(33.4)**	(30.1)
Net cash acquired on purchase of subsidiary undertakings	20	**0.2**	1.2
Investment in associated undertakings and joint venture	20	**(4.9)**	(10.8)
Deferred consideration on prior period acquisitions		**(19.9)**	(30.5)
Net cash flow for acquisitions and disposals		**(58.0)**	(70.2)
Equity dividends paid		**(13.6)**	(12.8)
Cash flow before management of liquid resources and financing		**(5.5)**	(74.9)
Management of liquid resources (a)			
Sale of short-term investments	14	**2.1**	-
Cash flow for management of liquid resources		**2.1**	-
Financing			
Issue of ordinary share capital	18, 19	**1.2**	13.2
(Decrease)/increase in debt due after more than one year		**(7.8)**	12.2
Increase of unsecured loan notes (net of expenses)		**100.4**	-
Capital element of finance lease rental payments		**(0.4)**	(0.8)
Net cash flow from financing		**93.4**	24.6
Increase/(decrease) in cash in the year		**90.0**	(50.3)

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

Notes to this consolidated cash flow statement are provided overleaf.

Notes to the consolidated cash flow statement >

For the year ended 31 December 2002

	2002 £m	2001 £m
Reconciliation of operating profit to operating cash flow		
Operating profit	**45.6**	24.4
Amortisation of goodwill	**21.5**	30.7
Depreciation charges	**21.6**	17.4
Loss on disposal of tangible fixed assets	**0.7**	0.1
Decrease/(increase) in debtors	**17.9**	(1.1)
Decrease in stock: work in progress	**0.4**	1.0
Increase/(decrease) in creditors and provisions	**1.6**	(6.2)
Net cash flow from operating activities	**109.3**	66.3

Subsidiary undertakings acquired in the year contributed £1.8 million (2001: (£2.2) million) to the Group's net cash flow from operating activities.

	2002 £m	2001 £m
Reconciliation of net cash flow to movement in net debt		
Increase/(decrease) in cash in the year	**90.0**	(50.3)
Cash inflow from increase in net debt and lease financing	**(95.2)**	(12.2)
Cash inflow from management of liquid resources	**(2.1)**	–
Cash outflow from finance lease payments	**0.4**	0.9
Cash outflow from issue costs of debt	**2.6**	–
Change in net debt resulting from cash flows	**(4.3)**	(61.6)
Amortisation of refinancing costs	**(1.9)**	(0.2)
Increase in lease financing	**–**	(2.0)
Effect of foreign exchange rate changes	**11.9**	(3.2)
Movement in net debt in the year	**5.7**	(67.0)
Net debt at 1 January	**(126.0)**	(59.0)
Net debt at 31 December	**(120.3)**	(126.0)

Analysis of net (debt)/funds	1 January 2002 £m	Cash flow £m	Other non-cash changes £m	Exchange movement £m	**31 December 2002 £m**
Cash at bank and in hand	60.7	57.8	–	3.7	**122.2**
Overdrafts	(65.3)	32.2	–	1.1	**(32.0)**
	(4.6)	90.0	–	4.8	**90.2**
Debt due after more than one year	(123.0)	(95.2)	(1.2)	6.9	**(212.5)**
Current asset investments	2.0	(2.1)	–	0.1	**–**
Net debt before finance lease obligations and issue costs of new debt	(125.6)	(7.3)	(1.2)	11.8	**(122.3)**
Finance lease obligations	(1.6)	0.4	–	0.1	**(1.1)**
Issue costs of debt	1.2	2.6	(0.7)	–	**3.1**
Total	(126.0)	(4.3)	(1.9)	11.9	**(120.3)**

There was cash of £0.2 million (2001: £0.1 million) within subsidiaries acquired in the year.

Notes to the financial statements >

For the year ended 31 December 2002

1. Principal accounting policies

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

Financial Reporting Standard 19, Deferred Tax, has been adopted in the current year. The introduction of this new accounting standard has not had a material effect on the results presented in this Annual Report. The 2001 balance sheet has been restated to present deferred tax balances on a grossed-up basis in accordance with FRS19. This has resulted in a £1.4 million asset and a £1.1 million liability being shown separately in the notes to the financial statements. There was no impact on the 2001 profit and loss account.

In 2002, the Group changed its accounting treatment of internal labour cost in line with industry practice. These costs are now disclosed within operating expenses rather than being included within cost of sales. 2001 comparative results have been restated to present cost of sales and operating expenses on the same basis. The impact on the 2001 results has been to transfer £37.4 million out of cost of sales into operating expenses. The impact of this change in treatment on the 2002 results has been to move £39.6 million of cost from cost of sales into operating expenses.

Basis of consolidation

The consolidated financial statements incorporate the results, cashflows and net assets of Aegis Group plc and its subsidiary undertakings. Where subsidiaries are acquired in the year, their results and cashflows are included from the date of acquisition up to 31 December 2002. All inter-company balances and transactions are eliminated. The financial statements also include the Group's attributable share of associated undertakings' and joint ventures' results up to 31 December 2002 and of their net assets/liabilities at 31 December 2002.

Goodwill

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

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

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

Foreign currencies

Transactions in foreign currencies are recorded at the exchange rate ruling at the date of the transaction. Upon settlement, monetary assets and liabilities are re-translated at the rate ruling on the settlement date. Monetary assets and liabilities at the year end are re-translated at the exchange rate ruling at the balance sheet date. Exchange differences arising upon re-translation at the settlement date or balance sheet date are taken to the profit and loss account. Exchange differences arising on the re-translation of foreign currency borrowings used to provide a hedge against foreign currency investments are taken directly to reserves.

Profit and loss accounts and cash flows in foreign currencies are translated into sterling at average exchange rates. Assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date. Exchange differences, arising on the translation of the results and net assets of subsidiaries and associated undertakings, are taken directly to reserves in the consolidated financial statements.

Short term forward exchange contracts are used to hedge transactions with material foreign currency exposures. Assets and liabilities denoted under such contracts are translated at the contracted rate.

Notes to the financial statements (continued) >

For the year ended 31 December 2002

1. Principal accounting policies (continued)

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

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

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

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

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

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

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

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

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

Fixed assets are periodically reviewed for impairment with any resulting write down being charged to the profit and loss account.

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

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

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

Subsidiary undertakings
Investments in subsidiaries are held in the Company Balance Sheet at cost less any provisions for impairment.

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

Notes to the financial statements (continued) >

For the year ended 31 December 2002

1. Principal accounting policies (continued)

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

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

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

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

Deferred taxation
The Group has adopted FRS19, deferred tax, during the period. Full provision is made for timing differences that have arisen but not reversed at the balance sheet date between the treatment of certain items for tax and accounting purposes. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. The deferred tax assets and liabilities are not discounted.

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

2. Segmental reporting

The Group operates in two business sectors: media communications and market research. An analysis of turnover by geographical area and business sector is set out below. The geographical analysis reflects the regions by which the Group is managed. Comparative figures have been restated on a similar basis.

	2002 £m	2001 £m
Analysis by geographical area:		
Europe	**4,231.1**	4,412.2
Americas	**1,752.5**	1,491.8
Asia-Pacific	**250.2**	191.7
Total turnover	**6,233.8**	6,095.7
Analysis by business sector:		
Media communications	**6,022.4**	5,910.6
Market research	**211.4**	185.1
Total turnover	**6,233.8**	6,095.7

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

2. Segmental reporting (continued)

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

	2002 £m Underlying	2002 £m Exceptional items	2002 £m Total	2001 £m Total
Analysis by geographical area:				
Europe	57.2	(2.7)	54.5	59.7
Americas	15.3	(6.8)	8.5	(7.2)
Asia-Pacific	4.1	-	4.1	2.6
Total operating profit (before goodwill amortisation)	76.6	(9.5)	67.1	55.1
Analysis by business sector:				
Media communications	61.1	(6.1)	55.0	45.6
Market research	15.5	(3.4)	12.1	9.5
Total operating profit (before goodwill amortisation)	76.6	(9.5)	67.1	55.1
Group share of operating loss in joint venture and associated undertakings	(0.8)	(4.0)	(4.8)	(4.1)
Net interest payable			(4.4)	(6.3)
Profit on ordinary activities before taxation and amortisation of goodwill			57.9	44.7
Amortisation of goodwill			(22.2)	(30.7)
Profit on ordinary activities before taxation			35.7	14.0

Underlying profit excludes goodwill amortisation of £22.2 million (2001: £30.7 million) and exceptional items of £13.5 million in 2002 (2001: £18.6 million) (note 3).

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

	2002 £m	2001 £m
Europe	31.6	24.6
Americas	92.1	89.9
Asia-Pacific	(1.7)	0.6
Total net assets	122.0	115.1
Media communications	(27.0)	(40.9)
Market research	140.1	140.4
eVerger joint venture	8.9	15.6
Total net assets	122.0	115.1

The Group's share of the net assets of associated undertakings and joint ventures of £19.9 million (2001: £26.9 million) is principally located in Europe and Asia-Pacific.

Notes to the financial statements (continued) >

For the year ended 31 December 2002

3. Exceptional items

The following exceptional items are included in the Group's results for the year ended 31 December 2002:

a In 2001, the Group initiated a restructuring programme resulting in significant costs arising in the second half of the year. This restructuring has continued in 2002 resulting in a further exceptional reorganisation charge of £7.2 million relating to severance (£6.2 million) and property vacation costs (£1.0 million).

b The Group has provided in full for the adverse judgement in legal action brought by Independent Media Services Inc., although an appeal has been lodged. The total cost of £6.5 million represents a £5.2 million provision in respect of the judgement and £1.3 million of legal cost.

c In 2001, the Group created a provision as an exceptional charge to cover potential bad debts in Argentina. £4.2 million of this provision is no longer required and has been written back through the profit and loss account in 2002 within exceptional items.

d During the year the Group created a further £4.0 million provision to reduce the carrying value of its investment in eVerger. This provision is required to write down the net realisable value of two of its underlying investments.

In total, these exceptional items gave rise to a corporation tax credit of £1.7 million (2001: £0.6 million) and a cash outflow of £6.4 million (2001: £6.0 million) in the year.

Exceptional items in 2001 comprised a £10.0 million provision against potentially bad debts in Argentina, £6.0 million of reorganisation costs and a provision of £2.6 million against the Group's investment in eVerger.

4. Staff costs

	2002 £m	2001 £m
Staff costs consist of:		
Wages and salaries	**232.4**	192.7
Social security costs	**36.4**	31.1
Other pension costs	**6.9**	9.0
	275.7	232.8

Number of employees

	Media communications 2002	Market research 2002	Total 2002	Media communications 2001	Market research 2001	Total 2001
Average number of full-time employees	**4,589**	**2,808**	**7,397**	4,317	2,474	6,791
Employees as at 31 December	**4,606**	**2,872**	**7,478**	4,300	2,549	6,849
Average number of full-time UK employees	**685**	**134**	**819**	672	43	715

Directors' remuneration is disclosed in the Remuneration Report on page 33. The total amount of directors' remuneration in 2002 was £4.6 million (2001: £3.5 million).

Notes to the financial statements (continued) >

For the year ended 31 December 2002

5. Interest and similar items

	2002 £m	2001 £m
Interest payable:		
On bank loans and overdrafts	**0.7**	2.1
On other loans, loan notes and convertible debt	**7.9**	8.1
Interest payable under finance lease and hire purchase contracts	**0.1**	0.1
Other charges	**2.1**	4.3
	10.8	14.6
Amortisation of refinancing costs	**0.7**	0.2
	11.5	14.8
Interest receivable	**7.1**	8.5
Net interest payable	**(4.4)**	(6.3)

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

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

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

Other charges include £1.1 million (2001: £1.0 million) of imputed interest arising from discounting deferred consideration payable on acquisitions.

Interest receivable principally comprises bank interest.

6. Profit on ordinary activities before taxation

	2002 £m	2001 £m
This is stated after charging/(crediting):		
Auditors' remuneration and expenses — audit services — UK*	**0.3**	0.3
— audit services — overseas	**0.9**	0.7
	1.2	1.0
Auditors' remuneration and expenses — non-audit services — UK**	**0.1**	-
— non-audit services — overseas**	**0.1**	0.1
	0.2	0.1
Depreciation of fixed assets — owned	**21.1**	16.7
Depreciation of fixed assets held under finance leases	**0.5**	0.7
Operating lease rentals	**20.8**	17.7
Research and development costs	**24.5**	23.2
Loss on disposal of tangible fixed assets	**0.7**	0.1
Foreign exchange (gain)/loss	***(0.8)***	*0.8*

*Auditors' remuneration and expenses payable by the Company were £0.2 million (2001: £0.2 million).

**Further amounts were paid to the auditors and capitalised in 2002 in relation to non-audit services. These amounts totalled £0.3 million in the UK (2001: £0.2 million) and £0.1 million overseas (2001: £nil). Non-audit services principally comprise due diligence work on the Group's acquisitions.

Notes to the financial statements (continued) >

For the year ended 31 December 2002

6. Profit on ordinary activities before taxation (continued)

All operating expenses are administrative expenses.

Revenue for continuing operations was £561.8 million (2001: £502.8 million) and for acquisitions was £30.1 million (2001: £26.2 million).

Gross profit for continuing operations was £492.3 million (2001: £445.7 million) and for acquisitions was £22.8 million (2001: £17.5 million).

Operating expenses for continuing operations were £453.4 million (2001: £425.5 million) and for acquisitions were £16.1 million (2001: £13.3 million).

7. Tax on profit on ordinary activities	**2002**	2001
	£m	£m
UK taxation – 30% (2001: 30%)	**(0.3)**	1.8
Overseas taxation	**20.8**	17.7
Group's share of associated undertakings' taxation	**–**	0.1
Total current tax	**20.5**	19.6
Deferred taxation	**(0.3)**	–
Tax on profits on ordinary activities	**20.2**	19.6

Reconciliation of the Group's current tax to the United Kingdom's statutory tax rate:	**£m**	£m
Profit on ordinary activities before taxation	**35.7**	14.0
Tax on profits at statutory rate of 30%	**10.7**	4.2
Effects of:		
Expenditure not deductible for tax purposes	**7.1**	11.2
Rate differences on overseas earnings	**4.4**	2.6
Adjustment to tax in respect of prior years	**(0.1)**	1.4
Tax losses utilised in the period	**(1.6)**	–
Unused tax losses carried forward	**–**	0.2
Total current tax	**20.5**	19.6

The effective rate of tax on the Group's underlying profits is 30.6% (2001: 31.9%) based on profits before amortisation of goodwill of £22.2 million (2001: £30.7 million) and exceptional costs in 2002 as disclosed in note 3 above. The effective rate of tax on the Group's reported profits is 56.6% (2001: 140.0%). Exceptional items of £13.5 million in 2002 (2001: £18.6 million) resulted in a tax credit of £1.7 million (2001: £0.6 million).

8. Dividends	**2002**	2001
Ordinary shares of 5p each		
– interim dividend rate per share	**0.50p**	0.48p
– final dividend proposed rate per share	**0.75p**	0.72p
	1.25p	1.20p
	£m	£m
– interim dividend paid	**5.7**	5.3
– final dividend proposed	**8.3**	7.9
	14.0	13.2

The final dividend, if approved, will be paid on 27 June 2003 to all ordinary shareholders on the register on 6 June 2003.

Notes to the financial statements (continued) >

For the year ended 31 December 2002

9. Earnings/(loss) per ordinary share

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

	2002	2001
Earnings/(loss) per ordinary share is calculated as follows:		
Basic		
Profit/(loss) for the year	**£14.1m**	£(7.0)m
Underlying profit for the year	**£48.1m**	£41.7m
Weighted average number of ordinary shares in issue	**1,103.6m**	1,094.6m
Basic earnings/(loss) per share	**1.3p**	(0.6)p
Underlying basic earnings per share	**4.4p**	3.8p
Diluted		
Profit/(loss) for the year	**£14.1m**	£(7.0)m
Underlying profit for the year	**£48.1m**	£41.7m
Weighted average number of ordinary shares in issue	**1,107.1m**	1,106.6m
Diluted earnings/(loss) per share	**1.3p**	(0.6)p
Underlying basic earnings per share	**4.3p**	3.8p

At 31 December 2002, there were 1,104.5 million (2001: 1,101.9 million) ordinary shares in issue and 98.3 million (2001: 97.7 million) options outstanding. The total proceeds that would be received on exercise of the outstanding options at 31 December 2002 is £114.2 million. The weighted average number of dilutive share options included in the dilutive earnings per share calculation at 31 December 2002 is 3.5 million (2001: 7.0 million). There are no other dilutive securities outstanding at 31 December 2002 (2001: nil).

Underlying profits are calculated by adding back amortisation of goodwill of £22.2 million for the year ended 31 December 2002 (2001: £30.7 million) and the exceptional items of £11.8 million (2001: £18.0 million) net of tax (note 3) for the year ended 31 December 2002, in order to eliminate the effect of these distorting items.

10. Intangible fixed assets

Group:	Notes	Goodwill £m
Cost at 1 January 2002		378.6
Additions	20	60.6
Adjustments to prior period estimates of deferred contingent consideration		1.2
At 31 December 2002		440.4
Amortisation at 1 January 2002		39.8
Provided for in the year		21.5
At 31 December 2002		61.3
Net book value		
At 31 December 2002		379.1
At 31 December 2001		338.8

Notes to the financial statements (continued) >

For the year ended 31 December 2002

11. Tangible fixed assets

Group:	*Freehold land* and buildings £m	Long leasehold *and leasehold* improvements £m	Office furniture, fixtures, *equipment* and vehicles £m	Total £m
Cost at 1 January 2002	15.4	21.7	87.1	124.2
Additions	0.5	3.1	12.2	15.8
Acquisitions	–	0.2	2.0	2.2
Disposals	(0.2)	(0.2)	(5.9)	(6.3)
Exchange adjustments	(0.6)	(0.4)	(3.2)	(4.2)
At 31 December 2002	15.1	24.4	92.2	131.7
Depreciation at 1 January 2002	7.9	9.5	47.4	64.8
Provided in the year	0.8	2.5	18.3	21.6
Disposals	(0.1)	(0.2)	(4.6)	(4.9)
Exchange adjustments	(0.4)	(0.2)	(1.3)	(1.9)
At 31 December 2002	8.2	11.6	59.8	79.6
Net book value				
At 31 December 2002	6.9	12.8	32.4	52.1
At 31 December 2001	7.5	12.2	39.7	59.4

Company:	Long leasehold and leasehold improvements £m	Office furniture, fixtures, equipment and vehicles £m	Total £m
Cost at 1 January 2002	0.8	5.3	6.1
Additions	–	1.7	1.7
Disposals	–	(0.1)	(0.1)
At 31 December 2002	0.8	6.9	7.7
Depreciation at 1 January 2002	0.1	1.2	1.3
Provided in the year	–	2.4	2.4
At 31 December 2002	0.1	3.6	3.7
Net book value			
At 31 December 2002	0.7	3.3	4.0
At 31 December 2001	0.7	4.1	4.8

Notes to the financial statements (continued) >

For the year ended 31 December 2002

11. Tangible fixed assets (continued)

The cost of the Group's tangible fixed assets includes £2.3 million (2001: £2.3 million) and the net book value includes £1.3 million (2001: £1.8 million) in respect of assets held under finance leases. Depreciation on these assets in the year was *£0.5 million (2001: £0.7 million).*

The net book value of the Company's tangible fixed assets does not include any amount in respect of assets held under finance leases (2001: £nil).

Neither the Group nor the Company had any capital commitments contracted for but not provided as at 31 December 2002 (2001: £nil).

12. Fixed asset investments

	Associates				Other fixed
	Share of net assets	Goodwill	Total	Joint ventures	asset investments
Group:	**£m**	**£m**	**£m**	**£m**	**£m**
Cost:					
At 1 January 2002	0.1	11.7	11.8	15.6	2.9
Acquired/invested in the year	0.2	2.3	2.5	2.3	0.1
Adjustments to prior period estimates					
of deferred consideration	–	(4.2)	(4.2)	–	–
Share of losses	–	–	–	(4.8)	–
Exchange movement	–	–	–	(2.1)	(0.2)
At 31 December 2002	0.3	9.8	10.1	11.0	2.8
Amortisation:					
At 1 January 2002	–	0.5	0.5	–	–
Charge in the year	–	0.7	0.7	–	–
At 31 December 2002	–	1.2	1.2	–	–
Net book value:					
At 31 December 2002	0.3	8.6	8.9	11.0	2.8
At 31 December 2001	0.1	11.2	11.3	15.6	2.9
Company:					
Net book value at 1 Janaury 2002	–	–	–	–	657.6
Additions	–	–	–	–	119.6
Transfers to other Group companies	–	–	–	–	(2.5)
Exceptional provision against investment in eVerger (note 3)	–	–	–	–	(4.0)
Write back of provision for diminution in value	–	–	–	–	9.4
Net book value at 31 December 2002	–	–	–	–	780.1

Associated undertakings and joint ventures

A list of the Group's principal associated undertakings and joint ventures is disclosed in note 24.

Other fixed asset investments

The Group's other fixed asset investments principally comprise an investment of approximately 2.1% in Harris Interactive, Inc. The market value of these shares at 31 December 2002 was £2.2 million (2001: £2.2 million).

The Company's fixed asset investments principally relate to shares in subsidiary undertakings, and its joint venture, eVerger. A list of the Group's principal subsidiary undertakings is disclosed in note 24.

Notes to the financial statements (continued) >

For the year ended 31 December 2002

13. Debtors

	Group 2002 £m	Group Restated (note 1) 2001 £m	Company 2002 £m	Company 2001 £m
Trade debtors	**914.0**	907.0	**-**	0.2
Amounts due from Group undertakings	**–**	–	**113.6**	157.5
Amounts due from associated undertakings and joint ventures	**6.3**	6.8	**0.2**	0.1
Other debtors	**50.7**	44.9	**2.0**	8.3
Deferred tax asset	**1.4**	1.1	**-**	–
Prepayments and accrued income	**38.3**	43.8	**0.5**	0.4
	1,010.7	1,003.6	**116.3**	166.5

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

14. Current asset investments

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Other investments	**-**	2.0	**-**	–

Current asset investments comprised an investment in a managed investment fund. This investment was sold in the year.

15. Creditors: amounts falling due within one year

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Bank loans and overdrafts	**32.0**	65.6	**76.1**	105.6
Less issue costs of debt to be amortised	**(1.0)**	(0.3)	**(1.0)**	(0.3)
	31.0	65.3	**75.1**	105.3
Trade creditors	**944.8**	975.0	**0.7**	0.8
Finance leases and hire purchase contracts	**0.6**	0.6	**-**	–
Amounts due to Group undertakings	**–**	–	**190.8**	158.3
Corporation tax	**8.9**	12.1	**-**	–
Taxation and social security	**30.2**	22.6	**0.1**	0.2
Other creditors	**86.3**	88.8	**11.9**	13.3
Accruals and deferred income	**120.2**	59.1	**7.4**	2.9
Dividends payable	**8.3**	7.9	**8.3**	7.9
	1,230.3	1,231.4	**294.3**	288.7

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

Notes to the financial statements (continued) >

For the year ended 31 December 2002

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

	Group		Company	
	2002	2001	2002	2001
	£m	£m	£m	£m
Bank loans	**4.3**	14.0	**-**	-
Loan notes	**99.4**	109.9	**99.4**	109.9
Convertible bond	**108.8**	-	**108.8**	-
Less issue costs of debt to be amortised	**(2.1)**	(0.9)	**(2.1)**	(0.8)
	210.4	123.0	**206.1**	109.1
Finance leases and hire purchase contracts	**0.5**	1.0	**-**	-
Other creditors	**27.2**	27.5	**-**	3.7
	238.1	151.5	**206.1**	112.8

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

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

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

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

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

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

Of the above, £214.3 million (2001: £52.2 million) is repayable between two and five years.

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

17. Provisions for liabilities and charges

	Vacant properties	Deferred tax	Total
	£m	£m	£m
Group:			
Balance at 1 January	-	1.1	1.1
Charged to the profit and loss account	1.3	-	1.3
Utilised in the year	(0.8)	-	(0.8)
At 31 December 2002	**0.5**	**1.1**	**1.6**

The Group's vacant leasehold properties are principally comprised of two telephone call centres in New York. Provision has been made for the residual lease commitments for the remaining period of the leases, which at 31 December 2002 is approximately 5 years.

The Company had no provisions for liabilities and charges at either 31 December 2001 or 31 December 2002.

Notes to the financial statements (continued) >

For the year ended 31 December 2002

17. Provisions for liabilities and charges (continued)

Deferred Tax	**2002 £m**	**2001 £m**
Group:		
Provision for deferred tax comprises:		
Other deferred tax liabilities	**1.1**	1.1
Other deferred tax assets	**(1.4)**	(1.1)
Net deferred tax provision	**(0.3)**	–
At 1 January	–	
Amount credited to profit and loss account (note 7)	(0.3)	
Net provision at 31 December 2002	**(0.3)**	

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

At 31 December 2002 the Group had tax losses carried forward of approximately £24.8 million (2001: £27.9 million) for which no deferred tax asset has been recognised.

18. Share capital

	2002 £m	**2001 £m**
Authorised:		
1,500,000,000 (2001: 1,500,000,000) ordinary shares of 5p each	**75.0**	75.0
	75.0	75.0
Issued, allotted, called up and fully paid:		
1,104,507,686 (2001: 1,101,903,590) ordinary shares of 5p each	**55.2**	55.1
	55.2	55.1

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

During the year the Company issued 2,005,067 ordinary shares due to the exercise of share options. The shares had a nominal value of £100,253 and the Company received £1,258,805 as consideration on the exercise of share options. The Company also issued 599,029 shares in connection with the acquisition of Pegram Walters in 2001. The shares had a nominal value of £29,951 with a share premium of £628,381.

Under the Group's share option schemes, there were outstanding options over 98,275,495 ordinary shares of 5p at 31 December 2002 (2001: 97,705,073), for which the participants have the right to exercise their options at prices ranging from 26.5p to 219.5p. These options are exercisable between 31 December 2002 and 17 September 2012.

Notes to the financial statements (continued) >

For the year ended 31 December 2002

19. Reserves

	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m
Group:			
At 1 January 2002	198.0	0.2	(140.8)
Retained profit for the year	–	–	0.1
Issue of shares by the Company	1.8	–	–
Currency translation differences on foreign currency investments	–	–	3.6
At 31st December 2002	199.8	0.2	(137.1)

Goodwill arising on acquisitions up to 31 December 1997 of £563.9 million (2001: £563.9 million), which was written off immediately to reserves, is included within the profit and loss account reserve.

Company:	Share premium account £m	Capital redemption reserve £m	Merger reserve £m	Profit and loss account £m
At 1 January 2002	198.0	0.2	13.0	161.1
Retained loss for the year	–	–	–	(29.3)
Issue of shares by the Company	1.8	–	–	–
At 31st December 2002	199.8	0.2	13.0	131.8

The Company has not presented its own profit and loss account as permitted by Section 230 (1) of the Companies Act 1985. The loss dealt with in the accounts of the Company for the year to 31 December 2002 was £15.3 million (year to 31 December 2001: profit of £7.2 million). Accumulated reserves for the Company include £118.8 million (2001: £118.8 million) which is not available for distribution under the terms of a court approved share premium reduction scheme.

20. Goodwill on acquisitions

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

Company	Country of incorporation	% Acquired	Date of acquisition
Balti Meediateenvste	Estonia	100%	January 2002
Lot 21	US	100%	January 2002
Chusen Media	Japan	49%	January 2002
All Ireland Media	Ireland	100%	January 2002
Market&More	Germany	100%	February 2002
Morgagni 33	Italy	51%	April 2002
Promotion Etoile	France	100%	April 2002
Safari	France	100%	June 2002
Ares et Communication Voyages	France	100%	June 2002
Chewing.com	France	100%	July 2002
Max Niddam Conseil	France	100%	July 2002
Media Nouvelles Technologies	France	100%	July 2002
Xenion	Germany	60%	July 2002
Carat Sport	UK	80%	July 2002
Sample Surveys	UK	100%	August 2002
Carat Media One Israel	Israel	51%	August 2002
Inner Strategic Research	Spain	100%	September 2002
Promovator	Denmark	50%	November 2002

The Group also acquired an additional 5% stake in Carat Russ-Media.

Notes to the financial statements (continued) >

For the year ended 31 December 2002

20. Goodwill on acquisitions (continued)

Initial consideration totalled £32.3 million, with estimated contingent deferred consideration of £22.6 million payable between 2003 and 2005, subject to performance criteria. A summary of the net assets/liabilities acquired and goodwill arising is given below.

Net assets/(liabilities) acquired:	Book value acquired £m	Accounting policy adjustments £m	Other adjustments £m	Fair value of net assets £m
Tangible fixed assets	2.5	(a) (0.3)	–	2.2
Debtors	23.5	–	(b) (0.4)	23.1
Stock: work in progress	0.6	–	–	0.6
Cash at bank and in hand	0.2	–	–	0.2
Creditors	(27.6)	–	(c) (3.1)	(30.7)
	(0.8)	(0.3)	(3.5)	(4.6)
Goodwill capitalised in the year				60.6
Consideration				56.0
Satisfied by:				
Initial cash consideration				32.3
Direct costs of acquisition				1.1
Deferred consideration (note 21)				22.6
				56.0

Provisional adjustments have been made as follows:

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

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

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

Associates

The Group invested £4.9 million in associated companies during the year, of which £1.1 million was paid for a 40% interest in ViewsCast, a market research company based in the UK, and £0.4 million was paid for a 25% interest in the Filter Group, a market research company with headquarters in Singapore. A further £3.4 million has been invested in the Group's existing associated companies.

21. Deferred consideration and other commitments

Deferred consideration, which has been provided for in creditors, may be paid to the vendors of certain subsidiary undertakings in the years to 2005. Such payments are either fixed under the terms of the acquisition or are contingent on future financial performance. The directors estimate that, at the rates of exchange ruling at the balance sheet date, the liability at 31 December 2002 for payments that may be due is as follows:

	2002 £m	2001 £m
Within one year	**33.0**	35.3
Between one and two years	**12.6**	19.9
Between two and five years	**10.2**	3.2
	55.8	58.4

All of the contingent deferred payments noted above are dischargeable in cash. The minimum liability is £11.8 million and the maximum is £127.2 million.

Notes to the financial statements (continued) >

For the year ended 31 December 2002

21. Deferred consideration and other commitments (continued)

Put options held by outstanding minority interests

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

Guarantees

At 31 December 2002, bank debt includes £37.9 million (2001: £53.3 million) that is guaranteed by the Company. Other bank guarantees issued by Group companies totalled £9.7 million (2001: £10.6 million).

At 31 December 2002, Group companies had issued other external guarantees, principally in relation to media and rent guarantees, of £29.4 million (2001: £19.8 million).

Lease commitments

At 31 December 2002, there were the following annual commitments in respect of non-cancellable operating leases:

	Group Land and buildings 2002 £m	Group Other 2002 £m	Total Group 2002 £m	Company Land and buildings 2002 £m	Group Land and buildings 2001 £m	Group Other 2001 £m	Total Group 2001 £m	Company Land and buildings 2001 £m
Operating leases that expire:								
Within one year	0.7	0.1	0.8	–	2.6	0.3	2.9	–
Between one and five years	4.1	2.6	6.7	–	10.9	3.2	14.1	–
After more than five years	8.0	–	8.0	0.8	10.2	–	10.2	0.8
31st December 2002	12.8	2.7	15.5	0.8	23.7	3.5	27.2	0.8

22. Related party transactions with associated undertakings and joint ventures

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

Carat Espãna SA purchased media space on behalf of Mediasal 2000 SA, an associated undertaking, totalling £15.2 million in 2002. The balance due at the year end was £5.7 million (2001: £5.8 million).

HMS Carat Hungary purchased media space through Média Mátrix Mádia kft, an associated undertaking, totalling £13.2 million in 2002. The balance owing at the year end was £2.1 million (2001: £1.4 million).

Carat Malaysia purchased media space on behalf of Perundung Pakar Media, an associated undertaking, totalling £0.3 million in 2002. The balance due at the year end was £0.1 million (2001: £nil).

Group companies provided administrative services to Percept D'Mark, an associated undertaking, totalling £0.1 million. The balance due at the year end was £0.2 million (2001: £0.2 million).

Group companies provided administrative services to eVerger Associates Limited totalling £0.2 million in 2002. The balance due at the year end was £nil (2001: £0.1 million).

Notes to the financial statements (continued) >

For the year ended 31 December 2002

23. Financial instruments

The Board of Directors has established objectives concerning the holding and use of financial instruments. The key objective is to manage the financial risks faced by the Group, which are discussed below.

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

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

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

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

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

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

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

At 31 December 2002, the Group had net debt (before finance lease obligations and issue costs of new debt) of £122.3 million (2001: £125.6 million). The Group had cash balances of £122.2 million at 31 December 2002 (2001: £60.7 million) and gross borrowings of £244.5 million (2001: £189.5 million).

Included within gross borrowings is £108.8 million (€165 million) of 2 per cent convertible bonds due in 2006. These bonds were issued on 15 May 2002.

Also included within gross borrowings is £99.4 million (US$160 million) (2001: £109.9 million (US$160 million)) of unsecured loan notes issued on 20 November 2000. These notes are repayable in full between 2006 and 2008.

In addition to the net debt at 31 December 2002, the Group has undrawn committed facilities of £168.7 million (2001: £222.5 million). Further details are given on page 61.

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

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

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

Notes to the financial statements (continued) >

For the year ended 31 December 2002

23. Financial instruments (continued)

Credit risk

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

Short-term debtors and creditors and currency disclosures

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

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

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

	Fixed rate financial liabilities 2002 £m	Floating rate financial liabilities 2002 £m	Total financial liabilities 2002 £m	Fixed rate financial liabilities 2001 £m	Floating rate financial liabilities 2001 £m	Total financial liabilities 2001 £m
Sterling	–	7.3	7.3	–	44.6	44.6
Euro	107.5	2.1	109.6	–	12.8	12.8
US dollar	–	114.2	114.2	–	125.8	125.8
Other currencies	–	13.4	13.4	–	6.3	6.3
	107.5	137.0	244.5	–	189.5	189.5

Interest is payable on the above floating rate financial liabilities (excluding the US unsecured loan notes) based on the variable market rate in each country. The weighted average interest rate for the year ended 31 December 2002 was 2.8% (2001: 5.3%). The variable interest rate payable on the US unsecured loan notes is based on the prevailing US LIBOR rate.

Interest on the convertible bond is fixed at 2% with a 1.875% premium payable.

In addition to the liabilities above, the Group had creditors due after more than one year of £22.8 million (2001: £23.1 million) on which generally no interest is paid (representing deferred consideration on acquisitions repayable between one and five years) and finance lease obligations of £1.1 million (2001: £1.6 million) which are mostly held in US dollars.

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

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

	Cash at bank and in hand 2002 £m	Current asset investments 2002 £m	Total 2002 £m	Cash at bank and in hand 2001 £m	Current asset investments 2001 £m	Total 2001 £m
Sterling	0.1	–	0.1	5.8	–	5.8
Euro	86.3	–	86.3	25.6	2.0	27.6
US dollar	12.0	–	12.0	1.0	–	1.0
Other currencies	23.8	–	23.8	28.3	–	28.3
	122.2	–	122.2	60.7	2.0	62.7

Floating rate cash earns interest based on the relevant national LIBID equivalent. In addition to the financial assets above, the Group had other fixed asset investments of £2.8 million (2001: £2.9 million) principally in US dollars, which do not yield an interest-related income and which do not have a fixed maturity date.

Notes to the financial statements (continued) >

For the year ended 31 December 2002

23. Financial instruments (continued)

Fair values of the Group's financial assets and liabilities
With the exception of the Group's £2.7 million fixed asset investment in Harris Interactive Inc and the interest rate swap on the Group's US$ loan notes (which is not included in the balance sheet), there are no material differences between the book and fair values of the Group's financial assets or liabilities. The fair value of the Group's investment in Harris Interactive Inc at 31 December 2002 was £2.2 million. The fair value of the swap at 31 December 2002 was £16.8 million (2001: £8.1 million). This fair value represents unrecognised profits which the Group expects to realise as a result of lower variable interest payments under the swap compared with the fixed interest rate applicable on the underlying loan notes. £4.8 million of this unrealised profit is expected to be realised in 2003.

Maturity of financial assets and liabilities
The maturity profile of the Group's financial liabilities is set out in notes 15, 16 and 21. With the exception of the Group's other fixed asset investments of £2.8 million, all financial assets have a maturity of less than one year.

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

	2002 £m	2001 £m
Expiring within one year	**140.1**	165.3
Expiring between one and two years	**28.6**	28.6
Expiring between two and five years	**-**	28.6
	168.7	222.5

Of the amounts disclosed above at 31 December 2002, £111.6 million expiring within one year may be extended annually by the Group until 2004.

Market risk
At 31 December 2002, it is estimated that a general rise of 1% in interest would reduce 2002 profit before tax by £1.2 million. It is also estimated that a strengthening of Sterling by 1% would reduce 2002 profit before tax by approximately £0.3 million.

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

Hedges of future transactions
At 31 December 2002 and 2001, there were no material foreign exchange contracts to hedge against future transaction flows.

Notes to the financial statements (continued) >

For the year ended 31 December 2002

24. Principal subsidiary and associated undertakings

Principal subsidiary undertakings:	Country of incorporation and operation	Effective interest in issued ordinary share capital at 31 Dec 2002
Media communications:		
Carat Fax	Argentina	100%
Carat Australia	Australia	100%
HMS Carat Austria	Austria	100%
Loop Line	Austria	51%
Carat Crystal	Belgium	100%
Carat Canada	Canada	100%
Groupe Carat Strategem	Canada	100%
K2 Media	Canada	100%
Carat Chile	Chile	100%
HMS Czech Republic	Czech Republic	100%
Carat Czech Republic	Czech Republic	100%
Carat Danmark	Denmark	100%
Carat Media Research	Denmark	100%
Promovator	Denmark	50%
Carat Group UK	England and Wales	100%
Carat	England and Wales	100%
Carat Direct	England and Wales	100%
BBJ Media Services	England and Wales	100%
Carat Business	England and Wales	100%
Carat Insight	England and Wales	100%
Posterscope	England and Wales	100%
Posterscope in the North	England and Wales	100%
Carat Interactive	England and Wales	100%
Carat International	England and Wales	100%
Carat Media Services	England and Wales	100%
Carat Sport	England and Wales	80%
Balti Meediateenvste	Estonia	100%
Carat Finland	Finland	100%
Mediekompetens	Finland	100%
Oy Inter Media	Finland	100%
Zemarid	Finland	100%
Carat France	France	100%
Carat Expansion	France	100%
Carat 2010	France	100%
Carat Expert	France	100%
Carat MCI	France	100%
Carat Prospective	France	100%
Carat SPFD	France	100%
Carat Sponsorship	France	100%
Saverne Developpement	France	100%
Granit	France	100%
Carat Direct	France	100%
Cyclades Carat	France	100%
Image Publicite Conseil	France	100%
Media Consultant	France	100%
Saverne Conseil	France	100%
Grap & Gides	France	100%
Carat Sante	France	100%
Christine Malleret Conseil	France	100%
Citizen Press	France	51%
L'Agence	France	51%
Nord Espace Media	France	100%
Demain Midi	France	100%
CTM	France	100%
Promotion Etoile	France	100%
Safari	France	100%
Ares et Communication Voyages	France	100%
Chewing.com	France	100%
Max Niddam Conseil	France	100%
Media Nouvelles Technologies	France	100%

Notes to the financial statements (continued) >

For the year ended 31 December 2002

24. Principal subsidiary and associated undertakings (continued)

Principal subsidiary undertakings:	Country of incorporation and operation	Effective interest in issued ordinary share capital at 31 Dec 2002
Carat Media Service	Germany	100%
HMS Media Service	Germany	100%
HMS and Carat Central Services	Germany	100%
HCCS Plus	Germany	51%
Carat Direct	Germany	100%
Carat Expert	Germany	100%
Carat Interactive	Germany	100%
Carat Hamburg Media Service	Germany	100%
HMS Hamburg Media Service	Germany	100%
HMS Frankfurt	Germany	100%
Media Standby	Germany	100%
Carat Munich	Germany	100%
Carat Sponsorship	Germany	100%
Carat Berlin	Germany	100%
MW Office	Germany	75%
PAP	Germany	51%
Xenion	Germany	60%
Carat Hellas	Greece	75.5%
Carat Creative	Greece	75.5%
HMS Carat	Hungary	100%
Carat Media Services Asia Pacific	Hong Kong	100%
All Ireland Media	Ireland	100%
Carat Italia	Italy	100%
Carat Expert	Italy	100%
Horizon	Italy	100%
Morgagni 33	Italy	51%
Carat Visions	Italy	100%
Web A	Italy	100%
Carat Media Services India	India	76%
Carat Integra PVT Ltd	India	51%
Chusen Media	Japan	49% (51% voting)
Carat Media One Israel	Israel	51%
Carat Malaysia	Malaysia	60%
Carat Mexico	Mexico	100%
Carat Nederland	Netherlands	100%
Carat New Zealand	New Zealand	100%
Carat Inter-Media	Norway	100%
Carat Media Research	Norway	100%
Carat Mediakanalen	Norway	100%
HMS Carat Polska	Poland	100%
Scope	Poland	100%
Carat Portugal	Portugal	100%
Carat Romania	Romania	100%
Carat Russ-Media	Russia	78%
Feather Brooksbank	Scotland	100%
HMS Carat Slovakia	Slovak Republic	100%
Carat España	Spain	100%
NetThink Carat	Spain	54%
Carat Scandinavia	Sweden	100%
Carat Sverige	Sweden	100%
Carat Media Research	Sweden	100%
Mediekompetens	Sweden	100%
Carat Interactive	Switzerland	100%
Micom Carat	Switzerland	100%
Carat Media Services (Thailand)	Thailand	49% (51% voting)
Carat Turkey	Turkey	100%
Carat Ukraine	Ukraine	100%
Carat Venezuela	Venezuela	100%
Carat Interactive	USA	100%
Vizium	USA	100%
Outdoor Vision	USA	100%
Applied Information for Marketing	USA	100%

For the year ended 31 December 2002

24. Principal subsidiary and associated undertakings (continued)

Principal subsidiary undertakings:	Country of incorporation and operation	Effective interest in issued ordinary share capital at 31 Dec 2002
Carat North America	USA	100%
Carat USA	USA	100%
MMA Carat	USA	100%
Carat Freeman	USA	100%
Lot 21	USA	100%
Market research:		
Synovate Ltd (formerly Pegram Walters)	England and Wales	100%
Synovate (UK) Ltd (formerly Sample Surveys)	England and Wales	100%
Synovate SAS (formerly Demoscopie)	France	100%
Synovate (Lyon) SAS (formerly Market&More France SA)	France	100%
Synovate BV (formerly Market&More The Netherlands BV)	Netherlands	100%
Synovate NV (formerly Market&More Belgium NV)	Belgium	100%
Synovate Ltd (formerly MEMRB Custom Research Worldwide)	Cyprus	100%
Synovate (Berlin) GmbH (formerly BIT)	Germany	100%
Synovate GmbH (formerly Market&More GmbH)	Germany	100%
Synovate SA (formerly Inner Strategic Research SA)	Spain	100%
Synovate Inc (formerly Market Facts Inc)	USA	100%
Synovate (New York) Inc (formerly Market Facts New York)	USA	100%
Copernicus: The Market Investment Strategy Group	USA	100%
Synovate (Miami) Inc (formerly Strategy Research Corporation)	*USA*	100%
Synovate (Florida) Inc	USA	100%
Synovate Motoresearch Inc (formerly Motoresearch)	USA	100%
Strategy Research Ltd SRL	Argentina	100%
Synovate (Argentina) SA (formerly Inner Market Research Argentina)	Argentina	100%
Synovate (Brazil) SA (formerly Inner Market Research Brazil Ltda)	Brazil	100%
Synovate Brazil Ltda (formerly Strategy Research de Brasil)	Brazil	100%
Synovate Ltd (formerly Market Facts of Canada)	Canada	100%
Synovate (Western Canada) Ltd (formerly MarkTrend)	Canada	100%
Synovate (China) Ltd (formerly Asia Market Intelligence China)	China	100%
Shenzen Synovate Market Intelligence Ltd (formerly Shenzen Fanzhong Market Intelligence Co.)	China	100%
Synovate Ltd (formerly Asia Market Intelligence Hong Kong)	China	100%
PT Synovate (formerly Asia Market Intelligence Indonesia)	Indonesia	100%
Synovate Ltd (formerly Asia Market Intelligence Korea)	Korea	100%
Synovate Snd Bhd (formerly Asia Market Intelligence Malaysia)	Malaysia	100%
Synovate SA de CV (formerly SRC de Mexico SA)	Mexico	100%
Synovate Inc (formerly PMI Asia)	Philippines	100%
Synovate Pte Ltd (formerly Asia Market Intelligence Singapore)	Singapore	100%
Synovate Ltd (formerly Asia Market Intelligence Taiwan)	Taiwan	100%
Synovate Ltd (formerly Asia Market Intelligence Thailand)	Thailand	100%
Synovate KK (formerly Research Fact)	Japan	100%

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

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

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

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

Notes to the financial statements (continued) >

For the year ended 31 December 2002

24. Principal subsidiary and associated undertakings (continued)

Principal associated undertakings:	Country of incorporation and operation	Effective interest in issued ordinary share capital at 31 Dec 2002
Media Communications:		
Aerlig Talt	Norway	34%
Carat Consulting	Norway	34%
Mediasal 2000	Spain	23.9%
Carat Philippines	Philippines	30%
CPM Media	Czech Republic	35%
CPM Media	Slovak Republic	50%
Media Matrix Kft	Hungary	40%
Media Base Advertising	Malaysia	49%
JV Bonds	Greece	40%
Carat China	China	50%
Carat Taiwan	Taiwan	50%
Norifumi Goddarh	France	40%
Percept D'Mark	India	25%
Market Research:		
Filter Group	Singapore	25%
ViewsCast Ltd	England & Wales	40.44%
Market Watch Market Research & Public Opinion Polling Ltd	Israel	48%
MISCO International Ltd	Malta	49%

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

Joint ventures

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

Shareholder information >

Financial calendar

28 May 2003	Annual General Meeting
4 June 2003	Ex-dividend date
6 June 2003	Last date for transfers
27 June 2003	Final dividend payable
11 September 2003	Announcement of interim results
Early October 2003	Interim dividend payable
Early March 2004	Preliminary announcement of results for the year ending 31 December 2003

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

Tel 0870 702 0010
Fax 0870 703 6143

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

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

Analysis of ordinary shareholdings at 31 December 2002

Size of holdings	Number of holders	%	Number of shares	%
1–1,000	1,571	41.42	724,464	0.07
1,001–10,000	1,325	34.93	4,613,342	0.42
10,001–25,000	205	5.41	3,456,717	0.31
25,001–50,000	148	3.90	5,499,574	0.50
50,001–100,000	97	2.56	7,042,751	0.64
100,001–250,000	140	3.69	22,828,491	2.07
250,001–500,000	95	2.50	34,950,541	3.16
500,001–1,000,000	69	1.82	49,288,197	4.46
1,000,001–10,000,000	119	3.14	373,597,001	33.82
10,000,001–25,000,000	14	0.37	208,690,878	18.89
25,000,001 +	10	0.26	393,828,230	35.66
	3,793	100.00	1,104,520,186	100.00

Five year summary >

Profit and loss:	2002	2001	2000	1999	1998
Turnover	**£6,233.8m**	£6,095.7m	£5,712.5m	£4,791.8m	£4,130.0m
Revenue	**£591.9m**	£529.0m	£473.0m	£323.5m	£221.0m
Gross profit	**£515.1m**	£463.2m	£382.8m	£281.7m	£221.0m
% Gross profit to turnover	**8.3%**	7.6%	6.7%	5.9%	5.4%
Operating profit (before amortisation of goodwill and exceptional items)	**£76.6m**	£71.1m	£84.5m	£66.4m	£50.6m
Profit before tax, amortisation of goodwill and exceptional items	**£71.4m**	£63.3m	£78.4m	£64.6m	£51.1m
Profit before tax	**£35.7m**	£14.0m	£71.7m	£67.3m	£50.6m
Effective underlying tax rate	**30.6%**	31.9%	29.5%	28.9%	28.4%
Profit/(loss) for the financial year	**£14.1m**	£(7.0)m	£47.5m	£47.0m	£35.5m
Cash flow:					
Operating cash flow	**£109.3m**	£66.3m	£96.2m	£76.3m	£57.0m
Net (debt)/funds at the year end	**£(120.3)m**	£(126.0)m	£(59.0)m	£(15.1)m	£36.9m
Balance sheet:					
Goodwill on acquisitions	**£379.1m**	£338.8m	£348.9m	£242.2m	£17.0m
Other fixed assets	**£74.8m**	£89.2m	£66.5m	£33.5m	£17.8m
Net current liabilities	**£(92.2)m**	£(160.3)m	£(107.3)m	£(64.7)m	£(75.3)m
Creditors: amounts falling due after more than one year	**£(238.1)m**	£(151.5)m	£(178.7)m	£(110.0)m	£(21.1)m
Provisions for liabilities and charges	**£(1.6)m**	£(1.1)m	-	-	-
Net assets/(liabilities)	**£122.0m**	£115.1m	£129.4m	£101.0m	£(61.6)m
Shareholder returns:					
Earnings per share — underlying					
— basic	**4.4p**	3.8p	5.0p	4.3p	4.0p
— diluted	**4.3p**	3.8p	4.9p	4.2p	3.7p
Earnings/(loss) per share — FRS 14					
— basic	**1.3p**	(0.6)p	4.4p	4.6p	4.0p
— diluted	**1.3p**	(0.6)p	4.3p	4.4p	3.7p
Ordinary dividend rate per share	**1.25p**	1.20p	1.15p	1.0p	0.85p

Glossary of terms >

The Group
Aegis Group plc and its subsidiaries.

Carat
The media services division of Aegis Group plc.

Synovate
The market research division of Aegis Group plc.

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

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

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

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

Gross margin
Gross profit stated as a percentage of turnover.

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

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

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

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

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

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

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

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

Minority interests
Partial ownership of subsidiary undertakings by external shareholders.

eVerger >

About eVerger
eVerger has focused on identifying, funding and developing businesses that create technology and software tools to help marketers promote and strengthen their brands. The Group no longer anticipates investing in any new entities through the joint venture but will seek to maximise the value of its remaining investment in eVerger which has a book value of £11.0 million in Aegis' Balance Sheet at 31 December 2002. eVerger has investments in the following trading companies:

NewworldiQ
NWIQ is a new company formed by the merger of Newworld Commerce (Dublin) and IQ Commerce (Saratoga, California). eVerger had invested in each of the companies individually and now has a total of $29.1 million invested in the combined operation. NewworldiQ provides a suite of products that allow marketers to create, manage and deliver complete marketing programmes online; ultimately enabling the marketer to build more profitable relationships with their online customers. They work with clients to implement programmes that generate customer action and promote brand loyalty.

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

Notice of Meeting >

Notice is hereby given that the Annual General Meeting of the Company will be held at 11am on 28 May 2003 at the offices of Financial Dynamics, Holborn Gate, 26 Southampton Buildings, London WC2A 1PB for the purpose of transacting the ordinary business of the Annual General Meeting set out in resolutions 1 to 6, and special business, when resolutions 7, 8, 11 and 12 will be proposed as ordinary resolutions and resolutions 9 and 10 will be proposed as special resolutions.

Ordinary business

1 To receive the financial statements for the year ended 31 December 2002 and the reports of the Directors and Auditors.

2 To declare a final dividend of 0.75p per ordinary share.

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

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

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

6 To appoint PricewaterhouseCoopers LLP as auditors and to authorise the directors to fix their remuneration.

Special business

7 That the Remuneration Report contained in the financial statements for the year ended 31 December 2002 is hereby approved.

8 That the directors be and they are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80 of the Companies Act 1985) up to an aggregate nominal amount of £18,409,937 provided that this authority shall expire (unless previously revoked or varied by the Company in general meeting) at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.

9 That, subject to the passing of resolution 8 above, the directors be and they are hereby empowered, pursuant to section 95 of the Companies Act 1985, to allot equity securities (within the meaning of section 94 of the said Act) for cash pursuant to the authority conferred by the said resolution 8 above as if section 89 of the said Act did not apply to any such allotment, provided that this power shall be limited:

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

   b to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £2,761,269 and shall expire (unless previously revoked or varied by the Company in general meeting) at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

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

   a the maximum number of shares which may be purchased is 55,229,813 ordinary shares;

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

Notice of meeting (continued) >

c the authority conferred by this resolution shall expire on 27 November 2004 or, if earlier, at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution, save that the Company may before such expiry make a contract to purchase shares which would or might be completed or executed wholly or partly after such expiry and may make a purchase of shares pursuant to such contract as if the authority conferred by this resolution had not expired.

11 That the rules of the Aegis Group 2003 Executive Share Option Scheme (the "Scheme"), the principal terms of which are set out in Appendix 1 of the accompanying Circular dated 26 March 2003, be and are hereby approved, and that the directors be and are hereby authorised to do all acts and things necessary to establish and carry the Scheme into effect.

12 That the rules of the Aegis Group 2003 Performance Share Plan (the "Plan"), the principal terms of which are set out in Appendix 2 of the accompanying Circular dated 26 March 2003, be and are hereby approved, and that the directors be and are hereby authorised to do all acts and things necessary to establish and carry the Plan into effect.

By order of the Board

John Ross
Company Secretary
43-45 Portman Square
London W1H 6LY
26 March 2003

Notes
A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. A proxy form is enclosed for your use and, to be effective, must be deposited with the Company's Registrars (Computershare Investor Services PLC, PO Box 1075, Bristol BS99 3FA) not less than 48 hours before the time appointed for the holding of the meeting. Return of the proxy form will not affect the right of a member to attend and vote at the meeting. Only those members registered in the Register of Members as at 11am on Wednesday, 28 May 2003 or their duly appointed proxies shall be entitled to attend and vote at the meeting. Copies of all directors' service contracts with the Company or its subsidiaries of more than one year's duration, and the register of directors' interests, will be available for inspection at 43-45 Portman Square, London W1H 6LY during normal business hours on any business day from the date of this notice until the conclusion of the meeting, and at the place of the meeting from 10.45am on the date of the meeting until the conclusion of the meeting. Details of the documents available for inspection in relation to resolutions 11 and 12 above, and the places at which they are available, are given in the accompanying Circular dated 26 March 2003.