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# Aegis Group plc

## RESULTS FOR THE YEAR ENDED 31 DECEMBER 2001

Aegis Group plc is a media and market research group employing approximately 7,000 staff in 60 countries. The Group comprises two main businesses: Carat, which is the world's largest independent media communications company, and Aegis Research, a leading international market research network.

### *STRONG ORGANIC REVENUE GROWTH DESPITE CHALLENGING MARKET*

- **Carat net new business wins total $1.7 billion**
- **Aegis Research revenues rose by 21.4% to £185.1 million**
- **Turnover up 6.7% to £6,095.7 million (2000: £5,712.5 million)**
- **Revenue up 11.8% to £529.0 million (2000: £473.0 million)**
- **Gross margin improved to 7.0% (2000: 6.7%)**
- **Underlying PBT £63.3 million (2000: £78.4 million) before exceptional items of £18.6 million of which £10.1 million relates to Argentina**
- **EBITDA £87.0 million before exceptional items (2000: £96.3 million)**
- **Underlying diluted EPS 3.8p (2000: 4.9p)**
- **Strong operating cash flow at £66.3 million (2000: £96.2 million) 102% of underlying operating profit**
- **Full year dividend 1.20p (2000: 1.15p)**

*Doug Flynn, chief executive of Aegis Group plc commented:*

**"2001 saw the deepest advertising recession in living memory. Despite this, Aegis' revenues grew nearly 12% against a market contraction of approximately 5%, albeit at a lower operating margin than the prior year. Our media division continued its new business success winning $1.7 billion of net new business and was named "Global Media Agency of the Year".**

**The research division was also affected but continued to grow revenues and develop its global network. In just two years it has established offices in 42 countries and, significantly, it is now winning international mandates.**

**We fully expect the current difficult trading conditions to persist for much of 2002 but the Group should nevertheless feel the benefits of the actions we have taken in 2001. When the upturn does come, Aegis' operational gearing means that it is well placed to benefit."**

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## Underlying Unaudited Consolidated Profit And Loss Account*

| | **12 months ended 31 Dec 2001 £'m** | 12 months ended 31 Dec 2000 £'m | % Increase/ (decrease) |
|---|---|---|---|
| **Turnover** | **6,095.7** | 5,712.5 | 6.7% |
| Cost of sales – payments to the media | **(5,566.7)** | (5,239.5) | 6.2% |
| **Revenue** | **529.0** | 473.0 | 11.8% |
| Cost of sales – other direct costs | **(103.2)** | (90.2) | 14.4% |
| **Gross profit** | **425.8** | 382.8 | 11.2% |
| Operating expenses | **(354.7)** | (298.3) | 18.9% |
| **Underlying group operating profit** | **71.1** | 84.5 | (15.9%) |
| Net interest payable | **(6.3)** | (5.3) | 18.9% |
| Associated undertakings | **(1.5)** | (0.8) | 88.0% |
| **Underlying profit before tax** | **63.3** | 78.4 | (19.3%) |
| Exceptional items | **(18.6)** | - | N/a |
| **Profit before tax and goodwill** | **44.7** | 78.4 | (43.0%) |
| **Basic Earnings/(Loss) Per Share** | | | |
| - underlying | **3.8p** | **5.0p** | N/a |
| - after exceptional items | **2.3p** | **-** | N/a |
| - FRS 14 | **(0.6)p** | **4.4p** | N/a |
| **Diluted Earnings/(Loss) Per Share** | | | |
| - underlying | **3.8p** | **4.9p** | N/a |
| - after exceptional items | **2.3p** | **-** | N/a |
| - FRS 14 | **(0.6)p** | **4.3p** | N/a |
| **Dividend** | | | |
| - interim | **0.48p** | **0.46p** | N/a |
| - final | **0.72p** | **0.69p** | N/a |
| - total | **1.20p** | **1.15p** | N/a |

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

**GROUP OVERVIEW**

Our financial results for 2001 highlight the challenging market conditions that persisted for most of the year. Nevertheless the year brought success in a number of areas. Our media business won $1.7 billion of net new business and was named "Global Media Agency of the Year" by Ad Age Global. Our market research operations, which represent approximately one third of the Group's revenues, also continued to grow revenues ahead of the market and is now attracting significant international business to its growing network. Carat's excellent performance in winning new business and the growth of Aegis Research has provided the momentum to keep Group revenues growing at a healthy rate in a market that declined significantly in 2001.

The current advertising recession began in the last quarter of 2000 in the US and advertising budgets fell heavily in the first quarter of 2001. Thereafter the effect spread rapidly to Europe and the problem was exacerbated by the tragic events of September 11, after which a number of major US marketers pulled their campaigns off-air for a period of time. In Latin America, Argentina's severe economic problems significantly impacted Carat's operations as turnover shrank rapidly and a number of local clients defaulted on paying for media booked on their behalf.

In the difficult market that we experienced in 2001, the Group undertook cost reduction measures particularly in those businesses most affected. Most exceptional costs associated with the restructuring were taken in 2001 though some will fall into 2002. We enter 2002 with the expectation that the market place will be flat to slightly down and have planned our costs accordingly.

In 2001, the Group invested in the business at considerably higher rates than previously. This took the form of geographic expansion through business start-ups and new services and products. This investment has now peaked with a number of those new businesses expected to be in profit in 2002. The Group's strategy is to continue to grow its businesses by building leading positions in the complementary areas of media and market research. We are confident that the quality of the underlying businesses and our strategic direction will deliver real shareholder value.

**Trading Overview - Media Services**

During 2001, Carat's media billings (defined as the annualised value of media purchased on behalf of clients, before agency discounts) increased by 12.0% to $14.7 billion. Carat's media operations increased revenues by 7.3 % to £343.9 million (2000: £320.5 million) during the year, which represents 65% of Group revenues. Net new business won in 2001 was $1.7 billion and included Pfizer, Philips and New Line Cinema.

***Europe***

Carat's European operations continue to be the powerhouse for the Group. The European operations not only achieved net new business of $503 million for the region but also contributed to the success of the rest of the Carat network. With nearly half of the world's top 100 global marketers headquartered in Europe, Carat's strong market position in the region continues to favour the agency as these large companies consolidated their media business pan-regionally and globally. Philips and adidas are both examples of established European clients consolidating budgets with Carat's international operations during the year. Despite the recession and reductions in clients' budgets, overall Carat's European operations continued to take market share and deliver solid revenue growth largely fuelled by the substantial account gains made in 2000.

***Americas***

Carat's US and Latin American billings now amount to $3.8 billion. Net new business in 2001 amounted to $1,086 million, with very large wins coming early in the year from healthcare giant Pfizer and New Line Cinema as well as the European account consolidation referred to above. Although there was considerable new business success, the US agency's profitability came under severe pressure as the US advertising recession saw many clients reduce their spend. At the same time there was a pressing need early in the year to invest in the new infrastructure required by the substantial new business success which for the most part did not generate revenue until the second half of the year. Consequently the US business undertook a major restructuring to reduce costs where necessary whilst catering for the substantial expansion being achieved elsewhere. Where possible this was achieved by transferring staff, but some redundancies were needed where a mismatch of skills or location made staff transfers impractical.

Latin America remained a focus of investment as we grew our operations in support of our international clients. During the year we launched Carat Mexico and Carat Venezuela and both operations are performing as expected. As outlined in the Group Overview, Argentina suffered very severe economic problems and the Buenos Aires office has been substantially reduced in size. The significant losses in Argentina are not expected to recur.

***Asia-Pacific***

Carat Asia-Pacific continued to grow strongly through market share gains from some of the longer-established players in the region. Net new business gains totaled $112 million, representing a healthy year-on-year increase over 2000. Consistent with its strategy of extending its global presence, Carat strengthened further its position in Japan, the world's second largest advertising market, through the acquisition of an interest in the media buying agency Chusen Media. With the addition of Korea in September, Carat's coverage of Asia-Pacific is now as good as any of its competitors in the region.

**Trading Overview - Market Research**

In 2001, Aegis Research's revenues rose 21.4% to £185.1 million (2000: £152.5 million) and they now represent 35% of the Group's total revenues. The year saw the continued expansion of Aegis Research from its existing base in the US and Asia to Europe, with a series of acquisitions in the region. Aegis Research now provides market research solutions to clients in 42 countries. The ability to offer clients international market research solutions through Aegis Research's growing worldwide network also provided incremental income and this is expected to build into a substantial revenue stream in future years.

***Americas***

Market Facts remains the largest of Aegis Research's operating divisions and its North American presence grew further with the acquisition of Copernicus, IMR and MarkTrend and a new office in Mexico. In the Americas, although the research industry as a whole expanded, the ad hoc segment in which we operate came under pressure as clients sought to reduce their discretionary expenditure. This resulted in a contraction in the market and pressure on prices. Market Facts was affected by this recession in the industry and showed little organic growth. To combat these difficult conditions, Market Facts restructured its operations through headcount reduction and other efficiencies. In addition, our internet-gathered data business more than doubled in 2001 as Market Fact's proprietary e-Panel grew into a valuable asset.

***Asia-Pacific***

Asia-Pacific experienced a tough trading year with many operations in the region recording only marginal growth. Asia's leading markets (Japan, Hong Kong and Singapore) were the hardest hit economies. However, China and Korea each reported positive growth. In November, Aegis acquired Research Fact in Tokyo to strengthen its Asia-Pacific network.

***Europe, Middle East and Africa (EMEA)***

Aegis Research's entry into the European market began in February with the acquisition of Pegram Walters. In 2001, the Group also acquired MEMRB, a custom research business with a 22-country network in Central, Eastern and Southern Europe, the Middle East and North Africa, as well as Demoscopie in France and BIT in Germany. The investment in the network continued in early 2002 with the acquisition of Market & More bolstering Europe further with operations in Germany, the Netherlands, Belgium and France. Our nascent network in EMEA benefited from access to Aegis Research's worldwide network and they saw a substantial increase in revenues as a result.

## GROUP FINANCIAL RESULTS

***Turnover***

Turnover was £6,095.7 million (2000: £5,712.5 million), a 6.7% increase, and excluding acquisitions, underlying turnover grew by 4.7%. Carat North America grew 20% and now represents some 22% of the Group's media turnover (2000: 20%). Carat's European turnover grew by 3%. Despite the advertising recession all the big five European countries, France, Germany, Italy, Spain, and the UK performed well and Eastern Europe as a whole achieved particularly strong growth. Carat's Asia Pacific region is also developing well with turnover up by 25%, while Carat's Latin American turnover continues to grow satisfactorily in most areas, except in Argentina where the economic crisis took its toll.

Carat's turnover growth was 6.3%. 2001 was a good year for new business with large wins particularly in the North American market. These new business wins should positively impact Group turnover in 2002. Aegis Research increased its revenue by 21.4%, helped by the expansion of its presence in Europe.

***Revenue***

The Group's revenue was £529.0 million (2000: £473.0 million), an increase of 11.8%. The organic growth after adjusting for the effect of acquisitions was 5.2%.

***Gross profit***

Gross profit was £425.8 million (2000: £382.8 million) an 11.2% increase. Excluding acquisitions the increase was 5.8% arising from the strong increase in turnover and a further improvement in gross margin. Gross margin was 7.0% (2000: 6.7%) reflecting the increased contribution from Aegis Research.

***Operating expenses***

During the year the Group continued to invest in greenfield ventures to complement its expansion by acquisition, with new operations in the US (Carat Interactive), Germany, Chile, China, Mexico, Romania, Singapore and Venezuela incurring significant costs. As a result, operating expenses (excluding amortisation of goodwill and exceptional items) rose by 18.9% to £354.7 million (2000:£298.3 million). The increase in investment expenditure together with the fall in spend by existing clients resulted in a fall in the Group's operating margin. The Group's underlying operating margin (excluding exceptional items and goodwill) was 16.7% (2000: 22.1%).

In addition to the underlying operating costs, the Group incurred significant exceptional costs, including £6.0 million in restructuring costs of which £4.1 million related to the Americas, £10.0 million in bad debt provisions relating to Argentina, and £2.6 million in provisions against the reduction in value of two investments held by eVerger, our venture capital investment associate company.

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 and exceptional items) was £63.3 million (2000: £78.4 million) with the decrease reflecting the impact of clients reducing their advertising marketing spend during the year. After exceptional items of £18.6 million, pre-tax profits before goodwill were £44.7 million.

***Capital expenditure***

The Group invested £29.0 million in 2001 (2000: £26.9 million). During the year, the Group incurred a capital cost of £6.2 million relating to property with the largest element being a new office extension in Germany with substantial expenditure also in the US where capacity was expanded during the year to cope with their exceptional new business wins. In addition, we invested £16.7 million in new tools and information technology. These investments, which peaked in 2001, will keep the Group at the forefront of technology in the media and market research industries.

***Foreign exchange***

The majority of the Group's operating profit arises outside the UK.  During 2001, only 19% of our underlying operating profit arose in Sterling with approximately 63% in Euros, and 4% in US$.  However, the overall effect of foreign exchange fluctuations on profit was modest.  If the year's profits were to be translated at the rates applicable last year, there would be an overall reduction of just 1%.

***Cash flow, borrowings and interest***

Working capital management continues to be a key element of the treasury management programme.  Operating cash flow for 2001 was strong at £66.3 million (2000: £96.2 million) equivalent to 102% of underlying operating profit, the seventh successive year that operating cash flow has exceeded operating profit.

As a result of acquisitions and investments made during the year, net debt at 31 December 2001 was £126.0 million (2000: net debt £59.0 million).  However, the Group benefited from the general reduction in interest rates during the year and net interest payable, excluding the amortisation of issue costs of debt, was £6.1 million (2000: £5.1 million).

***Taxation***

The Group's underlying effective tax rate rose to 31.9% (2000: 29.5%) as a result of unrelieved losses and exceptional items in Argentina and the US.

***Goodwill***

In accordance with FRS 10 the Group amortises goodwill arising on consolidation.  As noted at the half-year, the Group has decided to amortise the goodwill associated with the acquisition of Market Facts in 1999.  This has resulted in an additional goodwill charge of £10.5 million for the year.

In view of the situation in Argentina, the Board has concluded that the remaining goodwill of £11.9 million associated with Carat Fax, the Group's Argentine operation, should be written-off in the period.

Principally as a result of these two items, the goodwill charge for the year is £30.7 million (2000: £6.7 million). After deduction of the goodwill charge, the group's pre-tax profits were £14.0 million (2000: £71.7 million).

The FRS10 charge in respect of goodwill has no effect on the underlying profits of the company or its cash flow and does not affect its distributable reserves.

***Dividend***

An interim dividend of 0.48 pence per ordinary share was declared and paid in 2001 (2000: 0.46 pence). The Board is recommending a final dividend of 0.72 pence per ordinary share, making 1.20 pence per ordinary share for the full year, an increase of 4.3% over the dividend paid in respect of 2000.

## Group Outlook

The Group's results in 2001 have been affected by the industry-wide recession. Our planning for 2002 has been built around adspend levels that are likely to be flat or slightly down for the full year with the earliest expectation of a return to positive growth in the latter part of 2002. Because our media business is mostly commission-based, and our market research business operates at the discretionary end of the industry, the Group is operationally geared to benefit from an upturn in client advertising spend.

Despite the difficult market conditions, there are many things that have been done that will improve the Group's performance in the current year. Operating margins should be boosted by the careful and systematic cost reductions implemented in 2001, the fall in investment costs and the move towards profitability at the Group's newly opened offices. Good progress will be made during 2002 towards achieving the Company's target of improving operating profit margins to at least 20% of gross profit in 2003. 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.

# Unaudited consolidated profit and loss account

*for the year ended 31 December 2001*

| | Notes | 2001 £'m | 2001 £'m | 2000 £'m |
|---|---|---|---|---|
| **Turnover:** | | | | |
| – continuing operations | | | **6,057.5** | **5,712.5** |
| – acquisitions | | | **38.2** | **-** |
| **Turnover** | 2 | | **6,095.7** | **5,712.5** |
| Cost of sales – payments to the media | | **(5,566.7)** | **(5,566.7)** | **(5,239.5)** |
| **Revenue** | | | **529.0** | **473.0** |
| Cost of sales – other direct costs | | **(103.2)** | **(103.2)** | **(90.2)** |
| Cost of sales – total | | **5,669.9** | | **(5,329.7)** |
| **Gross profit** | | | **425.8** | **382.8** |
| Operating expenses before amortisation of goodwill and exceptional items | | **(354.7)** | | **(298.3)** |
| Exceptional operating expenses | 3 | **(16.0)** | | **-** |
| Amortisation of goodwill | 8 | **(30.7)** | | **(6.7)** |
| Operating expenses | | | **(401.4)** | **(305.0)** |
| **Group operating profit:** | | | | |
| – continuing operations | | **20.2** | | **71.8** |
| – acquisitions | | **4.2** | | **6.0** |
| **Group operating profit** | | | **24.4** | **77.8** |
| Group share of operating loss in joint venture and associated undertakings before exceptional item | | **(1.5)** | | **(0.8)** |
| Exceptional item – provision against investment | 3 | **(2.6)** | | — |
| Group share of operating loss in joint venture and associated undertakings | | | **(4.1)** | **(0.8)** |
| Interest and similar items: | | | | |
| – interest receivable | | **8.5** | | **7.5** |
| – interest payable | 4 | **(14.6)** | | **(12.6)** |
| – amortisation of refinancing costs | 4 | **(0.2)** | | **(0.2)** |
| **Net interest payable** | | | **(6.3)** | **(5.3)** |
| **Profit on ordinary activities before taxation** | 2 | | **14.0** | **71.7** |
| Tax on profit on ordinary activities | 5 | | **(19.6)** | **(23.1)** |
| **(Loss)/profit on ordinary activities after taxation** | | | **(5.6)** | **48.6** |
| Equity minority interests | | | **(1.4)** | **(1.1)** |
| **(Loss)/profit attributable to members of the parent company** | | | **(7.0)** | **47.5** |
| Ordinary dividends | 6 | | **(13.2)** | **(12.5)** |
| **Retained (loss)/profit for the year** | | | **(20.2)** | **35.0** |
| **(Loss)/earnings per ordinary share:** | 7 | | | |
| **Basic** | | | **(0.6)p** | **4.4p** |
| Underlying basic earnings per share* | | | **3.8p** | **5.0p** |
| Underlying diluted earnings per share* | | | **3.8p** | **4.9p** |
| **Diluted** | | | **(0.6)p** | **4.3p** |

*As detailed in note 7, underlying earnings exclude amortisation of goodwill and £18.6 million of exceptional costs in 2001, in order to eliminate the effect of these distorting items.

## Unaudited consolidated statement of total recognised gains and losses

*for the year ended 31 December 2001*

| | 2001 £'m | 2000 £'m |
|---|---|---|
| **(Loss)/profit for the year** | **(7.0)** | **47.5** |
| Currency translation differences on foreign currency net investments | **(8.8)** | **(8.5)** |
| **Total recognised gains and losses for the year** | **(15.8)** | **39.0** |

## Unaudited consolidated reconciliation of movements in equity shareholders' funds

*for the year ended 31 December 2001*

| | 2001 £'m | 2000 £'m |
|---|---|---|
| **(Loss)/profit for the year** | **(7.0)** | **47.5** |
| Ordinary dividends | **(13.2)** | **(12.5)** |
| | **(20.2)** | **35.0** |
| Issue of shares by the Company | **14.7** | **3.2** |
| Currency translation differences on foreign currency net investments | **(8.8)** | **(8.5)** |
| **Net (decrease)/increase in equity shareholders' funds** | **(14.3)** | **29.7** |
| Opening equity shareholders' funds | **126.8** | **97.1** |
| **Closing equity shareholders' funds** | **112.5** | **126.8** |

## Unaudited note of historical cost profits and losses

*for the year ended 31 December 2001*

There is no material difference between the reported results for the years ended 31 December 2001 and 2000 and the results for those years restated on an unmodified historical cost basis.

# Unaudited consolidated balance sheet

*at 31 December 2001*

| | Notes | **2001 £'m** | 2000 £'m |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible fixed assets | 8 | **338.8** | **348.9** |
| Tangible assets | | **59.4** | **46.4** |
| Investments in associated undertakings | | **26.9** | **17.2** |
| Other fixed asset investments | | **2.9** | **2.9** |
| | | **428.0** | **415.4** |
| **Current assets** | | | |
| Debtors | | **1,002.5** | **1,001.7** |
| Stock: work in progress | | **4.8** | **7.8** |
| Investments | | **2.0** | **2.1** |
| Cash at bank and in hand | | **60.7** | **86.7** |
| | | **1,070.0** | **1,098.3** |
| **Creditors:** amounts falling due within one year | | **(1,231.4)** | **(1,205.6)** |
| **Net current liabilities** | | **(161.4)** | **(107.3)** |
| **Total assets less current liabilities** | | **266.6** | **308.1** |
| **Creditors:** amounts falling due after more than one year | | **(151.5)** | **(178.7)** |
| **Net assets** | | **115.1** | **129.4** |
| | | | |
| **Capital and reserves** | | | |
| Issued, allotted, called up and fully paid share capital | 9 | **55.1** | **54.2** |
| Share premium account | 9 | **198.0** | **184.2** |
| Capital redemption reserve | 9 | **0.2** | **0.2** |
| Profit and loss account | 9 | **(140.8)** | **(111.8)** |
| **Equity shareholders' funds** | | **112.5** | **126.8** |
| **Equity minority interests** | | **2.6** | **2.6** |
| **Total capital employed** | | **115.1** | **129.4** |

# Unaudited consolidated cash flow statement

*for the year ended 31 December 2001*

| | 2001 £'m | 2000 £'m |
|---|---|---|
| **Net cash flow from operating activities** | **66.3** | **96.2** |
| **Returns on investments and servicing of finance** | | |
| Interest received | **8.4** | **7.4** |
| Interest paid | **(14.6)** | **(12.5)** |
| Interest element of finance lease rental payments | **(0.1)** | — |
| Issue costs of unsecured loan notes | — | **(0.6)** |
| Dividends paid to minority interests | **(0.6)** | **(1.5)** |
| **Net cash flow for returns on investments and servicing of finance** | **(6.9)** | **(7.2)** |
| **Taxation** | **(22.9)** | **(20.1)** |
| **Capital expenditure and financial investment** | | |
| Purchase of tangible fixed assets | **(29.0)** | **(26.9)** |
| Sale of tangible fixed assets | **0.6** | **1.1** |
| **Net cash flow for capital expenditure and financial investment** | **(28.4)** | **(25.8)** |
| **Acquisitions and disposals** | | |
| Purchase of subsidiary undertakings (note 8) | **(30.1)** | **(45.3)** |
| Net cash acquired on purchase of subsidiary undertakings (note 8) | **1.2** | **5.7** |
| Investment in associated undertakings | **(10.8)** | **(16.1)** |
| Deferred consideration on prior period acquisitions | **(30.5)** | **(18.9)** |
| **Net cash flow for acquisitions and disposals** | **(70.2)** | **(74.6)** |
| **Equity dividends paid** | **(12.8)** | **(11.5)** |
| **Cash flow before management of liquid resources and financing** | **(74.9)** | **(43.0)** |
| **Management of liquid resources (a)** | | |
| Purchase of short term investments | — | **(2.1)** |
| **Cash flow from management of liquid resources** | — | **(2.1)** |
| **Financing** | | |
| Issue of ordinary share capital (net of expenses) | **13.2** | **3.2** |
| Increase in debt due after more than one year | **12.2** | — |
| Increase of unsecured loan notes | — | **107.1** |
| Repayment of secured loans | — | **(83.4)** |
| Capital element of finance lease rental payments | **(0.8)** | **(0.3)** |
| **Net cash flow from financing** | **24.6** | **26.6** |
| **Decrease in cash in the year** | **(50.3)** | **(18.5)** |

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

Notes to this unaudited cash flow statement are provided overleaf.

# Notes to the unaudited preliminary results

*for the year ended 31 December 2001*

| Reconciliation of operating profit to operating cash flow | 2001 £'m | 2000 £'m |
|---|---|---|
| Operating profit | **24.4** | **77.8** |
| Amortisation of goodwill | **30.7** | **6.7** |
| Depreciation charges | **17.4** | **12.6** |
| Loss / (profit) on disposal of tangible fixed assets | **0.1** | **(0.1)** |
| Increase in debtors | **(1.1)** | **(140.5)** |
| Decrease in stock: work in progress | **1.0** | **3.3** |
| (Decrease)/increase in creditors | **(6.2)** | **136.4** |
| **Net cash flow from operating activities** | **66.3** | **96.2** |

| Reconciliation of net cash flow to movement in net debt | 2001 £'m | 2000 £'m |
|---|---|---|
| **Decrease in cash in the year** | **(50.3)** | **(18.5)** |
| Cash inflow from increase in net debt and lease financing | **(12.2)** | **(23.3)** |
| Cash outflow from management of liquid resources | — | **2.1** |
| Cash outflow from finance lease payments | **0.9** | — |
| Cash outflow from issue costs of debt | — | **0.6** |
| Change in net debt resulting from cash flows | **(61.6)** | **(39.1)** |
| Amortisation of refinancing costs | **(0.2)** | **(0.2)** |
| Increase in lease financing | **(2.0)** | — |
| Effect of foreign exchange rate changes | **(3.2)** | **(4.6)** |
| **Movement in net debt in the year** | **(67.0)** | **(43.9)** |
| Net debt at 1 January | **(59.0)** | **(15.1)** |
| **Net debt at 31 December** | **(126.0)** | **(59.0)** |

| Analysis of net (debt) / funds | 1 January 2001 £'m | Cash flow £'m | Other non-cash changes £'m | Exchange Movement £'m | 31 December 2001 £'m |
|---|---|---|---|---|---|
| Cash in hand and at bank | 86.7 | (24.4) | — | (1.6) | 60.7 |
| Overdrafts | (37.8) | (25.9) | — | (1.6) | (65.3) |
| | 48.9 | (50.3) | — | (3.2) | (4.6) |
| Debt due after one year | (110.9) | (12.2) | — | 0.1 | (123.0) |
| Current asset investments | 2.1 | — | — | (0.1) | 2.0 |
| Net debt before finance lease obligations and issue costs of new debt | (59.9) | (62.5) | — | (3.2) | (125.6) |
| Finance lease obligations | (0.5) | 0.9 | (2.0) | — | (1.6) |
| Issue costs of new debt | 1.4 | — | (0.2) | — | 1.2 |
| **Total** | (59.0) | (61.6) | (2.2) | (3.2) | (126.0) |

There were bank loans and overdrafts of £0.1m (2000: £nil) within subsidiaries acquired in the year.

# Notes to the unaudited preliminary results

*for the year ended 31 December 2001*

**1. Principal accounting policies**

**Basis of preparation**

The preliminary results have been prepared applying the accounting policies in the Group's 31 December 2000 report and accounts.

In accordance with Financial Reporting Standard 10, the directors are required to 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. In the case of goodwill arising on the acquisition of Market Facts, Inc. the useful economic life is not considered to be finite and hence in 2000 was not amortised. As a result of the continuing successful development of the market research operations in the US, the results of Market Facts, Inc. are likely to become increasingly integrated with the rest of the business to such an extent that it may become difficult to identify separately its results, which we would be required to do to support non-amortisation. As a consequence, the directors have decided to amortise the goodwill over the estimated remaining useful economic life of 18_ years. This has increased the amortisation charge for the year to 31 December 2001 by £10.5 million.

**2. Analysis of turnover and profit on ordinary activities before taxation**

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

| | **2001**<br>**£'m** | 2000<br>£'m |
|---|---|---|
| Europe | **4,412.2** | **4,275.4** |
| North America | **1,445.6** | **1,218.5** |
| Rest of the World | **237.9** | **218.6** |
| **Total turnover** | **6,095.7** | **5,712.5** |
| **An analysis by business sector is set out below:** | | |
| Media communications | **5,910.6** | **5,560.0** |
| Market research | **185.1** | **152.5** |
| **Total turnover** | **6,095.7** | **5,712.5** |

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

| | **2001**<br>**£m**<br>**Underlying** | **2001**<br>**£m**<br>**Exceptional items** | **2001**<br>**£'m**<br>**Total** | 2000<br>£'m<br>Total |
|---|---|---|---|---|
| Europe | **61.5** | **(1.8)** | **59.7** | **59.1** |
| North America | **7.0** | **(4.0)** | **3.0** | **19.6** |
| Rest of the World | **2.6** | **(10.2)** | **(7.6)** | **5.8** |
| **Total operating profit (before exceptional items and goodwill)** | **71.1** | **(16.0)** | **55.1** | **84.5** |
| **An analysis by business sector is set out below:** | | | | |
| Media communications | **60.0** | **(14.4)** | **45.6** | **69.0** |
| Market research | **11.1** | **(1.6)** | **9.5** | **15.5** |
| **Total operating profit (before exceptional items and goodwill)** | **71.1** | **(16.0)** | **55.1** | **84.5** |
| Group share of operating loss in joint venture and associated undertakings | **(1.5)** | **(2.6)** | **(4.1)** | **(0.8)** |
| Net interest payable | | | **(6.3)** | **(5.3)** |
| **Underlying profit on ordinary activities before taxation** | | | **44.7** | **78.4** |
| Amortisation of goodwill | | | **(30.7)** | **(6.7)** |
| **Profit on ordinary activities before taxation** | | | **14.0** | **71.7** |

Underlying profit excludes goodwill amortisation and exceptional costs of £18.6 million in 2001 (note 3).

# Notes to the unaudited preliminary results

*for the year ended 31 December 2001*

### 3. Exceptional Costs

During the year, the Group incurred significant exceptional costs as follows:

a) Following the economic downturn in Argentina during 2001, an exceptional cost has been charged to provide against potentially bad debts totalling £10.0 million.
b) Cost cutting initiatives have been a priority in 2001 to maintain margins in a difficult trading environment. These initiatives have resulted in an exceptional reorganisation charge of £6.0 million relating to severance (£4.8 million) and property vacation costs (£1.2 million).

In addition, the Group has established a provision of £2.6 million to reduce the carrying value of its investment in eVerger. This provision represents the Group's share of eVerger's write down to net realisable value of two of its underlying investments, NetUsability and Paramark.

In total, these exceptional costs gave rise to a corporate tax credit of £0.6 million.

### 4. Interest payable and similar charges

| | **2001** | 2000 |
|---|---|---|
| | **£'m** | £'m |
| **Interest payable:** | | |
| On bank loans and overdrafts | **9.2** | **8.6** |
| On other loans | **1.0** | **0.7** |
| Interest payable under finance lease and hire purchase contracts | **0.1** | — |
| Other charges | **4.3** | **3.3** |
| | **14.6** | **12.6** |
| Amortisation of refinancing costs | **0.2** | **0.2** |
| | **14.8** | **12.8** |

On 20 November 2000, the Group issued US$160 million of unsecured loan notes, repayable between 2006 and 2008.
Other charges include £1.0 million of imputed interest arising from discounting deferred consideration payable on acquisitions.

### 5. Tax on profit on ordinary activities

| | **2001** | 2000 |
|---|---|---|
| | **£'m** | £'m |
| UK taxation – 30% (2000: 30%) | **1.8** | **0.3** |
| Overseas taxation | **17.7** | **22.8** |
| Group's share of associated undertakings' taxation | **0.1** | — |
| | **19.6** | **23.1** |

The effective rate of tax on the Group's underlying profits is 31.9% (2000: 29.5%) based on profits before amortisation of goodwill and exceptional costs in 2001 as disclosed in note 3 above.

### 6. Dividends

| | **2001** | 2000 |
|---|---|---|
| **Ordinary shares of 5p each** | | |
| – Interim dividend rate per share | **0.48p** | **0.46p** |
| – Proposed final dividend per share | **0.72p** | **0.69p** |
| | **1.20p** | **1.15p** |
| | **£'m** | **£'m** |
| – Interim dividend paid | **5.3** | **5.0** |
| – Final dividend proposed | **7.9** | **7.5** |
| | **13.2** | **12.5** |

The final dividend, if approved, will be paid on 28 June 2002 to all ordinary shareholders on the register on 7 June 2002.

# Notes to the unaudited preliminary results

*for the year ended 31 December 2001*

### 7. (Loss)/earnings per ordinary share

| | **2001** | 2000 |
|---|---|---|
| (Loss)/Earnings per ordinary share is calculated as follows: | | |
| **Basic** | | |
| (Loss)/profit for the year | **£(7.0)m** | **£47.5m** |
| Underlying profit for the year | **£41.7m** | **£54.2m** |
| Weighted average number of ordinary shares in issue | **1,094.6m** | **1,081.1m** |
| Basic (loss)/ earnings per share | **(0.6)p** | **4.4p** |
| Underlying basic earnings per share | **3.8p** | **5.0p** |
| **Diluted** | | |
| (Loss)/profit for the year | **£(7.0)m** | **£47.5m** |
| Underlying profit for the year | **£41.7m** | **£54.2m** |
| Weighted average number of ordinary shares in issue and the weighted average number of dilutive securities | **1,101.6m** | **1,115.6m** |
| Diluted (loss)/earnings per share | **(0.6)p** | **4.3p** |
| Underlying diluted earnings per share | **3.8p** | **4.9p** |

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

At 31 December 2001, there were 1,101.9 million (2000: 1,083.9 million) ordinary shares in issue and 97.7 million (2000: 90.3 million) options outstanding. The total proceeds that would be received on exercise of the outstanding options at 31 December 2001 is £114.4 million. The weighted average number of dilutive share options included in the dilutive earnings per share calculation at 31 December 2001 is 7.0 million (2000: 34.4 million). There are no other dilutive securities outstanding at 31 December 2001 (2000: nil).

Underlying profits are calculated by adding back amortisation of goodwill of £30.7 million for the year ended 31 December 2001 and £6.7 million for the year ended 31 December 2000 and the exceptional costs of £18.6 million (note 3) for the year ended 31 December 2001, in order to eliminate the effect of these distorting items.

### 8. Goodwill on acquisitions

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

| **Company** | **Country of Incorporation** | **% Acquired** | **Date of Acquisition** |
|---|---|---|---|
| Mark Trend | Canada | 100% | 29 January 2001 |
| Pegram Walters | England | 100% | 31 January 2001 |
| Lord Media | Poland | 100% | 16 February 2001 |
| Copernicus | US | 100% | 12 March 2001 |
| MEMRB Custom Research Worldwide | Cyprus | 100% | 1 May 2001 |
| Demoscopie | France | 100% | 1 June 2001 |
| L'Agence | France | 51% | 2 July 2001 |
| NetThink | Spain | 54% | 2 July 2001 |
| Citizen Press | France | 51% | 2 July 2001 |
| IMR | US | 100% | 2 July 2001 |
| Media Plus | New Zealand | 100% | 1 August 2001 |
| Loop Line | Austria | 51% | 6 November 2001 |
| Research Fact | Japan | 100% | 29 November 2001 |
| BIT | Germany | 100% | 30 November 2001 |
| Vizium | US | 100% | 14 December 2001 |

The Group also acquired additional shareholdings in WebA (40%), Carat Interactive France (10%), BBJ Media Services (9.4%) and Carat Prospective (5%).

# Notes to the unaudited preliminary results

*for the year ended 31 December 2001*

**8. Goodwill on acquisitions (continued)**

Initial consideration totalled £28.2 million (including £1.5 million paid in shares), with estimated contingent deferred consideration of £15.5 million payable between 2002 and 2005, subject to performance criteria. A summary of the net assets/liabilities acquired and goodwill arising is given below.

| | Book value acquired £'m | Accounting policy adjustments £'m | Other Adjustments £'m | Fair value of net assets £'m |
|---|---|---|---|---|
| **Net assets/(liabilities) acquired:** | | | | |
| Intangible assets | 0.4 | - | a) (0.4) | - |
| Tangible fixed assets | 3.4 | b) (0.4) | - | 3.0 |
| Debtors | 9.9 | - | c) (0.9) | 9.0 |
| Stock: work in progress | 1.3 | d) 1.1 | - | 2.4 |
| Cash at bank and in hand | 1.2 | - | - | 1.2 |
| Creditors | (14.0) | d),e) (3.1) | f) (0.3) | (17.4) |
| | 2.2 | (2.4) | (1.6) | (1.8) |
| Goodwill capitalised in the year | | | | 48.9 |
| Consideration | | | | 47.1 |

| | |
|---|---|
| **Satisfied by:** | |
| Initial consideration | 28.2 |
| Direct costs of acquisition | 1.3 |
| Deferred consideration paid on current year acquisitions | 2.1 |
| Deferred consideration (note 10) | 15.5 |
| | 47.1 |

Provisional adjustments have been made as follows:

(a) Adjustments have been made to write off local goodwill in acquired balance sheets.

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

(c) Provisions have been made for potentially doubtful debts in acquired balance sheets.

(d) The accounting policy for revenue recognition in acquired research companies has been amended to recognise revenue only on completion of a project or on the satisfactory completion of a specific phase of a project. The net effect is to reduce net assets by £1.2 million.

(e) Provision has been made to convert to accruals accounting.

(f) Provision has been made to accrue for pre-acquisition related liabilities.

**Associates**

The Group invested £3.6 million in associated companies during the year, of which £2.4 million was paid for a 25% interest in PDM, an event marketing company based in India. Deferred consideration up to a maximum of £4.1 million may be payable based upon performance criteria.

**eVerger**

The Group also invested £7.2 million in eVerger, its 50:50 joint venture with Warburg, Pincus, set up to make early stage investments in eMarketing services and enabling technologies. The company is focused on identifying, funding and developing businesses that create technology and software tools to help marketers promote and strengthen their brands.

# Notes to the unaudited preliminary results

*for the year ended 31 December 2001*

### 9. Reserves

| | Share capital £'m | Share premium account £'m | Capital redemption reserve £'m | Profit and loss account £'m |
|---|---|---|---|---|
| At 1 January 2001 | 54.2 | 184.2 | 0.2 | (111.8) |
| Retained loss for the financial year | - | - | - | (20.2) |
| Issue of shares by the Company | 0.9 | 13.8 | - | - |
| Currency translation differences on foreign currency net investments | - | - | - | (8.8) |
| **At 31 December 2001** | **55.1** | **198.0** | **0.2** | **(140.8)** |

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

### 10. Deferred consideration

Deferred consideration, which has been provided for in creditors, may be paid to the vendors of certain subsidiary undertakings in the years to 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 2001 for payments that may be due is as follows:

| | **2001 £'m** | 2000 £'m |
|---|---|---|
| Within one year | **35.3** | **37.3** |
| Between one and two years | **19.9** | **19.5** |
| Between two and five years | **3.2** | **47.6** |
| | **58.4** | **104.4** |

All of the contingent deferred payments noted above are dischargeable in cash. The minimum liability is £13.2 million and the maximum is £86.0 million.

### 11. Post balance sheet events

***Chusen Media***

On 15 January 2002, the Group announced its acquisition of a 49% interest in Chusen Media, a joint venture with the Japanese media agency Chuo Senko. Initial cash consideration was £3.5 million, with deferred cash consideration payable over the next three years based upon performance criteria.

***Lot 21***

On 15 January 2002, the Group announced its acquisition of Lot 21, a US interactive media agency, based in San Francisco. Initial cash consideration totalled £1.4 million, with additional deferred cash consideration payable over the next three years, subject to performance criteria.

***Market & More***

On 8 February 2002, the Group announced its acquisition of Market&More, a market research company with operations in Germany, the Netherlands, Belgium and France. Initial cash consideration was £3.8 million, with deferred cash consideration payable over the next three years, based upon performance criteria.

***Filter Group***

On 18 February 2002, the Group announced the acquisition of its 25% interest in the Filter Group, a market consulting company with offices in Singapore, Hong Kong and Bangkok. Initial cash consideration was £0.3 million, with additional deferred contingent consideration payable in the form of Aegis Group plc shares in January 2005. Put and call options exist over the remaining 75% share capital, which are exercisable in 2005, subject to performance criteria.

### 12. Statutory accounts

The financial information contained in this announcement does not constitute the Company's statutory accounts for the years ended 31 December 2001 and 2000. The 2001 statutory accounts will be distributed to shareholders prior to the Annual General Meeting and filed with the Registrar of Companies thereafter. Copies will be available from the Company's registered office at 43-45 Portman Square, London W1H 6LY. Statutory accounts for the year ended 31 December 2000, containing an unqualified auditor's report, have been filed with the Registrar of Companies.