

1. Accounting policies

Basis of preparation and change in accounting policy

The separate financial statements of the Company are presented as required by the Companies Act 1985. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law.

The Directors' Report, Corporate Governance and Directors' Remuneration Report disclosures have been made in the front section of this report, refer to pages 47 to 63.

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

During the year, the Company has reconsidered the repayment terms of certain inter-company loans, and as a result reclassified these loans from short term to long term. The impact at 31 December 2006 was a reclassification of £8.4 million.

The Company has revisited the classification its revolving credit facility during the period and as a result, as at 31 December 2006 it has reclassified £158.1 million borrowings from debt due within one year to debt due after more than one year.

Cash flow statement

The Company has utilised the exemptions provided under FRS1 (Revised) and has not presented a cash flow statement. The cash flow statement has been presented in the Group financial statements.

Related party transaction

In accordance with Related Party Disclosures ('FRS8'), the Company is exempt from disclosing transactions with entities that are part of the Aegis Group, or investees of the Group qualifying as related parties, as it is a parent publishing consolidated financial statements.

Employee benefits

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

Share based payments

The Company applies the requirements of Share-based Payment ('FRS20'). In accordance with the transitional provisions, FRS20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 January 2005.

Certain employees receive remuneration in the form of share-based payments, including shares or rights over shares. The cost of equity-settled transactions with employees is measured by reference to the fair value of the instruments concerned at the date at which they are granted. The fair value is determined by an external valuer using a stochastic model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the vesting date on which the relevant employees become fully entitled to the award. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the directors at that date, will ultimately vest. No expense is recognised for awards that do not ultimately vest.

Interest income

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

Leased assets

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease rentals are charged to the profit and loss account over the lease term on a straight-line basis.

Tangible assets

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

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

Leasehold buildings	Over the period of the lease
Leasehold improvements	10% – 20% per annum or over the lease if shorter
Office furniture, fixtures, equipment and vehicles	10% – 50% per annum
Software	33% per annum
Other	5% – 10% per annum

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

Investments

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

Equity instruments

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

Loans

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

2. Profit for the year

As permitted by section 230 of the Companies Act 1985 the Company has elected not to present its own profit and loss account for the year.

Aegis Group plc reported a loss, before the payment of dividends, for the financial year ended 31 December 2007 of £23.1 million (2006: a loss of £5.7 million).

The auditors' remuneration for audit services to the Company amounted to £0.5 million (2006: £0.3 million) and for non-audit services amounted to £0.1 million (2006: £0.6 million).

Details of executive and non-executive directors' emoluments and their interest in shares and options of the Company are shown within the directors' remuneration report.

3. Staff costs

The monthly average number of persons employed by the Company (excluding directors) during the year was 43 (2006: 44).

Their aggregate remuneration comprised:

	2007	2006
	£m	£m
Wages and salaries	3.8	3.7
Bonus costs	0.8	1.2
Social security costs	0.9	0.5
Pension costs	0.6	0.5
Severance costs	1.4	–
Staff costs	7.5	5.9

Directors' remuneration is disclosed in the front section of this report, refer to Remuneration Report pages 56 to 63.

4. Tangible assets

	Leasehold land and buildings	Equipment, fixtures and fittings	Computer software	Other	Total
	£m	£m	£m	£m	£m
COST					
At 1 January 2007	0.9	2.4	5.4	0.9	9.6
Additions	–	0.4	0.3	0.1	0.8
Disposals	–	(1.4)	(4.4)	–	(5.8)
At 31 December 2007	0.9	1.4	1.3	1.0	4.6
ACCUMULATED DEPRECIATION					
At 1 January 2007	0.5	1.8	3.9	0.2	6.4
Charge for the year	0.1	0.4	0.5	–	1.0
Disposals	–	(1.4)	(4.3)	–	(5.7)
At 31 December 2007	0.6	0.8	0.1	0.2	1.7
CARRYING AMOUNT					
At 31 December 2007	0.3	0.6	1.2	0.8	2.9
At 31 December 2006	0.4	0.6	1.5	0.7	3.2

The net book value of other tangible assets includes trademarks of £0.8 million (2006: £0.7 million).

5. Investments

	Joint Venture £m	Interests in associates £m	Shares in subsidiary undertakings £m	Total £m
COST				
At 1 January 2007	22.7	0.2	1,255.7	1,278.6
Additions	–	–	–	–
Disposals	–	–	–	–
Return of Capital Invested	(2.3)	–	–	(2.3)
At 31 December 2007	20.4	0.2	1,255.7	1,276.3
ACCUMULATED IMPAIRMENT LOSSES				
At 1 January 2007	21.0	–	163.6	184.6
Reversal of impairment losses	(0.6)	–	–	(0.6)
At 31 December 2007	20.4	–	163.6	184.0
CARRYING AMOUNT				
At 31 December 2007	–	0.2	1,092.1	1,092.3
At 31 December 2006	1.7	0.2	1,092.1	1,094.0

Joint Venture

The Company has a 44.65% shareholding in eVerger Limited, an investment company incorporated in Guernsey. The period-end reporting date for eVerger is 30 September. During the year £2.3 million of capital was returned to the Company by eVerger. The current year return of capital resulted in the reversal of the impairment loss of £0.6 million recognised in prior years.

The Company's associated undertaking is:

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

6. Debtors due within one year

	2007 £m	2006 £m
Trade Debtors	–	0.2
Amounts owed by subsidiary undertakings	302.5	232.8
Other debtors	3.4	9.6
Prepayments and accrued income	0.8	0.9
	306.7	243.5

7. Debtors due after more than one year

	2007 £m	2006 £m
Amounts owed by subsidiary undertakings	22.2	8.4
	22.2	8.4

8. Creditors: amounts falling due within one year

	2007 £m	2006 £m
Bank overdrafts	6.2	122.5
Loans	29.9	84.9
Less issue costs of debt to be amortised	(0.4)	(0.5)
	35.7	206.9
Trade creditors	2.3	2.9
Amounts owed to subsidiary undertakings	298.8	164.1
Taxation and social security	0.2	–
Other creditors	0.2	6.0
Accruals and deferred income	5.7	1.6
	342.9	381.5

Included within accruals and deferred income is provision for National Insurance Contributions on share options of:

	2007 £m	2006 £m
At 1 January	1.5	0.4
Payment of national insurance contributions	(0.4)	(0.2)
Charged to profit and loss account	0.1	1.3
At 31 December	1.2	1.5

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

	2007 £m	2006 £m
Loan notes	481.9	339.3
Less issue costs of debt to be amortised	(1.1)	(1.5)
	480.8	337.8

Private Placement Debt – November 2000

On 20 November 2000, the Company issued US\$160 million of unsecured loan notes, repayable between 2006 and 2008. These loan notes were guaranteed by the Company and certain of its subsidiaries. US\$118.5 million was settled during the year.

Private Placement Debt – July 2005

On 28 July 2005, the Company issued US\$342 million of unsecured loan notes, repayable between 2012 and 2017. On 9 November 2005 cross currency swaps were entered into for US\$142 million of the loan notes due in 2012 and US\$50 million of the loan notes due in 2015 to convert this US\$ fixed rate borrowing into EUR fixed rate borrowing. These loan notes are guaranteed by the Company and certain of its subsidiaries.

Private Placement Debt – September 2007

On 17 September 2007, the Company issued US\$125 million of unsecured loan notes, repayable between 2014 and 2017. These loan notes are guaranteed by the Company and certain of its subsidiaries.

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

Revolving Credit Facility – June 2006

On 9 June 2006, the Company raised a five-year £450 million Multicurrency Credit Facility with a group of international financial institutions. The facility is of a committed revolving nature with drawings allowable under a variety of currencies. The facility is guaranteed by the Company and certain of its subsidiaries.

Loans repayable, included within creditors, are analysed as follows:

	2007 £m	2006 £m
Repayable within one year	36.1	207.4
Repayable between one and two years	–	6.6
Repayable between two and five years	326.7	158.1
Repayable after more than five years	155.2	174.6
Issue cost of debt	(1.5)	(2.0)
	516.5	544.7
Details of loans not wholly repayable within five years as follows:		
5.25% fixed rate 2005 \$159 million private placement debt repayable 28 July 2012	–	81.2
5.50% fixed rate 2005 \$118 million private placement debt repayable 28 July 2015	59.5	60.2
5.65% fixed rate 2005 \$65 million private placement debt repayable 28 July 2017	32.7	33.2
6.06% fixed rate 2007 \$75 million private placement debt repayable 17 September 2014	37.8	–
6.29% fixed rate 2005 \$50 million private placement debt repayable 17 September 2017	25.2	–
	155.2	174.6

Cross Currency Swaps

The fair value of the cross currency swaps entered into at 31 December 2007 is £(15.9) million (2006: £(9.3) million). The fair value is based on a discounted cash flow model and market interest yield curves applicable and represents movements in the Euro/US\$ foreign exchange spot rate and in Euro and US\$ interest rate yields. The cross currency swaps are synthetically split to reflect the Company's functional currency of Sterling. The US\$/Sterling leg of the swaps act as cash flow hedges against the Company's US\$ loan notes. The Euro/Sterling leg of the swaps has been designated as a fair value through the profit and loss.

Details of the fair value of the Company's cross currency swaps are set out in note 20 of the Group's financial statements.

10. Share capital

	2007 £m	2006 £m
Authorised		
1,500,000,000 (2006: 1,500,000,000) ordinary shares of 5p each	75.0	75.0

	2007 Number of ordinary shares	2007 £m	2006 Number of ordinary shares	2006 £m
Issued, allotted, called up and fully paid				
At 1 January	1,141,784,840	57.1	1,128,049,657	56.4
Issue of shares by the Company	11,734,190	0.6	13,735,183	0.7
At 31 December	1,153,519,030	57.7	1,141,784,840	57.1

Movements in called up share capital

The Company has one class of ordinary shares which carry no right to fixed income. The ordinary shares of 5p each have full voting rights.

The Company issued a total of 11,734,190 shares (2006: 13,735,183) in the year with an aggregate nominal value of £586,710 (2006: £686,759), 11,734,190 (2006: 13,735,183) of which were due to the exercise of share options. The total share premium arising on the issue of shares in the year was £9,273,491 (2006: £10,471,549).

Under the Company's share option schemes, there were outstanding options over 42,297,035 ordinary shares of 5p each at 31 December 2007 (2006: 60,473,849), for which the participants have the right to exercise their options at prices ranging from 63.7p to 214.5p. These options are exercisable between 31 December 2007 and 11 April 2017.

11. Shares to be issued

The shares to be issued related to the acquisition of AgenciaClick in Brazil and are dependent on certain performance conditions being met.

12. Share premium and reserves

	Share premium	Capital redemption reserve	Merger reserve	ESOP reserve	Capital reserve	Profit and Loss account	Total
	£m	£m	£m	£m	£m	£m	£m
At 1 January 2007	229.4	0.2	13.0	(22.1)	301.4	52.7	574.6
Premium on shares issued	9.3	–	–	–	–	–	9.3
Purchase of shares by ESOP	–	–	–	(12.8)	–	–	(12.8)
Shares awarded by ESOP	–	–	–	4.0	–	(4.0)	–
Retained profit for the year	–	–	–	–	–	(23.1)	(23.1)
Dividends to shareholders	–	–	–	–	–	(22.7)	(22.7)
Credit for share-based incentive schemes	–	–	–	–	–	1.3	1.3
Cash flow hedge reserve	–	–	–	–	–	1.4	1.4
At 31 December 2007	238.7	0.2	13.0	(30.9)	301.4	5.6	528.0

At 31 December 2007, the Company's ESOP (the 'Aegis Group Employee Share Trust') held 24,516,101 Ordinary Shares in the Company with a nominal value of £1,225,805 and a market value of £28.7 million.

At 31 December 2006, the Company's ESOP held 17,923,182 ordinary shares in the Company with a nominal value of £896,159 and a market value of £25.1 million.

The capital redemption reserve represents the conversion, issue and redemption of shares by the company, less expenses.

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

13. Profit and loss account

	2007 £m	2006 £m
At 1 January	52.7	74.2
Shares awarded by ESOP	(4.0)	–
Retained loss for the year	(23.1)	(5.7)
Dividends to shareholders	(22.7)	(19.4)
Credit for share-based incentive schemes	1.3	0.7
Cash flow hedge reserve	1.4	2.9
At 31 December	5.6	52.7

For the year ended 31 December 2007, dividends paid to shareholders comprise the final 2006 dividend of £13.2 million (1.175p per share) and the interim 2007 dividend of £9.5 million (0.84p per share). For the year ended 31 December 2006, dividends paid to shareholders comprise the final 2005 dividend of £11.3 million (1.0p per share) and the interim 2006 dividend of £8.1 million (0.725p per share). The proposed final dividend for the year ended 31 December 2007 is £16.5 million (1.46p per share).

As at 31 December 2007, the Company does not have sufficient distributable reserves to meet the proposed final 2007 dividend of £16.5 million. The directors have initiated the necessary steps to increase these reserves to ensure there are sufficient distributable reserves to permit the payment of the final 2007 dividend.

14. Share-based payments

The Company recognised a total expense of £1.3 million (2006: £0.7 million) in respect of all share-based payments in the year. Share-based payments include share options and conditional share awards.

Share options

The Company issues share options to certain employees. The grant price for share options is equal to the average quoted market price of the Company shares on the date of grant. The vesting period is typically three years. If share options remain unexercised after a period of 10 years from the date of grant, the options expire. Share options are forfeited if the employee leaves the Company before the options vest and are subject to EPS performance conditions. Further details are provided in the Remuneration Report.

Details of outstanding share options are provided in note 32 to the Group's financial statements.

The weighted average share price at the date of exercise for share options exercised during the period was £0.98 (2006: £0.92). The options outstanding at 31 December 2007 had a weighted average exercise price of £1.04 (2006: £1.07), and a weighted average remaining contractual life of 4.9 years (2006: 5.4 years). The fair value per option granted (weighted average) in the year was £0.38 (2006: £0.36).

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

	2007	2006
Expected life	5 years	3 years
Weighted average share price	149.00	135.75
Weighted average exercise price	147.50	134.00
Expected volatility	19.0%	23.0%
Risk free rate	5.7%	4.4%
Expected dividend yield	1.4%	1.2%

Expected volatility was determined by considering the historical volatility of the Company's share price over the previous three years, with certain periods where the share price was particularly volatile for specific reasons, being disregarded as these were not considered to be indicative of expected future volatility. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The Company recognised a total expense of £0.3 million (2006: £0.3 million) in respect of share options in the year.

Conditional share awards

The Company issues conditional share awards to certain employees. The vesting period is typically three years. The extent to which awards vest is determined 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. Further details are provided in the Remuneration Report.

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

The Company recognised a total expense of £1.0 million (2006: £0.4 million) in respect of conditional share awards in the year.

15. Operating lease arrangements

	2007	2006
	£m	£m
Operating lease payments recognised in income for the year	0.8	0.8

At 31 December 2007, there were the following annual commitments in respect of non-cancellable operating leases:

	2007	2006
	£m	£m
Operating leases that expire		
Within 1 year	0.2	–
In the second to fifth years inclusive	–	–
After 5 years	0.4	0.8
	0.6	0.8

16. Principal subsidiary and associated undertakings

All shareholdings are of ordinary shares.

All of the principal subsidiary and associated undertakings disclosed above are directly held.

Principal subsidiary undertakings	Country of incorporation and operation	Effective interest in issued share capital at 31 December 2007
Media Communications		
Aegis Media France S.A.S	France	100%
Aegis Media Nederland BV	Netherlands	100%
Aegis Media Italia Srl	Italy	100%
Aegis Media Iberia S.L	Spain	100%
Aegis Media (Central Europe & Africa) GmbH	Germany	100%
Aegis Media Ltd	England and Wales	100%
Eaton Gate Inc	USA	100%
AgenciaClick – Midia Interativa SA	Brazil	100%
Market Research		
Synovate Inc	USA	100%
Synovate Holdings Pty Ltd	Australia	100%
Synovate Ltd	England and Wales	100%
Synovate (Asia Pacific – BVI) Ltd	British Virgin Islands	100%
Principal associate undertakings		
Media Communications		
Qin Jia Yuan Media Services Company Ltd	China	15.9%
L'Agence Citizen Press S.A.	France	49.8%
L'Agence Des Services del la Presse et de L'edition SAS	France	49.8%