

**Cordiant Communications Group plc**  
**Preliminary audited results for the year ended 31 December 2001**

*Cordiant Communications Group plc ("Cordiant") is the world's eighth largest global marketing communications group with over 10,000 employees in more than 216 offices spanning 80 countries (including affiliates).*

- Revenues up 17.9% to £605.0 million (2000: £513.0 million). Revenues decreased by 8.0% on an underlying basis.
- Operating profit (pre-exceptional items and goodwill) £36.5 million (2000: £61.4 million).
- Operating margin (pre-exceptional items and goodwill) at 6.0% (2000: 12.0%).
- Pre tax profit (pre-exceptional items and goodwill) £25.7 million (2000: £57.5 million).
- Exceptional operating charge of £27.6 million. The Group is targeting incremental cost savings in excess of £30.0 million in 2002.
- Exceptional goodwill impairment of £224.8 million.
- Adjusted diluted headline earnings per share down to 3.6p (ADS 25.9¢) from 11.4p (restated) (ADS 86.6¢).
- Agreement with lenders to amend terms of the Group's financing arrangements now finalised.
- The Board does not propose to pay a dividend in respect of 2001 (2000: 2.1p per Ordinary share).

Michael Bungey, Chief Executive of Cordiant, commented

““Whilst previous rates of revenue decline have abated, and we are seeing early signs of business activity emerge, we forecast no revenue growth this year. The measures we have taken to reduce our cost base are targeted to deliver a 50% improvement in margin. The mix of businesses we have assembled, coupled with a maintained focus on cost, positions us well to profit quickly from any sustained upturn.”

**22 April 2002**

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Presentation: The Preliminary Results presentation is available on the Cordiant website, <http://www.cordiantww.com>, from 0800hrs UK time (0300hrs NY time). A presentation to analysts will be held at 1130hrs UK time at College Hill Associates, 78 Cannon Street, London, EC4.

Conference Call: There will be a telephone conference call with Michael Bungey, CEO and Art D'Angelo, CFO at 1500hrs UK time (1000hrs NY time). To participate please dial the following number in London, +44 (0) 20 8515 2342. A replay facility is in place for 24 hours immediately following the conference call. To activate, dial the following number in London, +44 (0) 20 8797 2499, using the PIN number 117217#.

Forward-looking statements: This press release contains certain "forward-looking statements" and information that are based on the current expectations, estimates and projections of Cordiant's management and information currently available to Cordiant. These statements are not guarantees of future performance and involve certain risks and uncertainties that are difficult to predict. In addition, some forward-looking statements are based upon assumptions as to future events that may not prove to be accurate. These statements typically contain words such as "intends", "expects", "anticipates", "estimates" and words of similar import and, in this release, include statements relating to Cordiant's revenues, profitability and cost reduction programme. Cordiant's actual performance could differ materially from that anticipated depending on, among other things, gains to or losses from its client base, the amount of revenue derived from clients, Cordiant's exposure to changes in the exchange rates of major currencies against the pound sterling, the general level of advertising expenditures in Cordiant's markets, the overall level of economic activity in Cordiant's major markets, employee costs, future interest rates, changes in tax rates and other factors discussed from time to time in Cordiant's public filings with the U.S. Securities and Exchange Commission, including Cordiant's Annual Report on Form 20-F. Many of the factors named above are macroeconomic in nature and are, therefore, beyond the control of Cordiant's management. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual performance may vary materially from those described herein as anticipated, believed, estimated, expected, intended, planned or projected. Cordiant does not intend, and does not assume any obligation, to update the forward-looking statements contained in this document.

## **PRELIMINARY STATEMENT**

### **2001 REVIEW**

2001 was an extremely difficult year. Revenues declined 8.0% on an underlying basis and operating profit before exceptionals and goodwill fell 40.6%. Good performances were in the minority as the downturn impacted operations across different geographies and sectors. The margin halved to 6.0% reflecting the Group's limited ability to mitigate the impact of declining revenues in the short term.

Cordiant's response to the downturn was widespread with action taken to streamline, refocus and strengthen operations, and eliminate loss-makers. Implementation resulted in an exceptional operating charge of £27.6 million which is expected to realise incremental cost savings in excess of £30.0 million in 2002. The cost base for 2002 has been set to reflect the Group's conservative revenue expectations, restoring the margin potential of many operations.

Central to the Group's strategy, set out over four years ago, was to extend beyond advertising into the higher margin, higher growth areas of marketing services and specialist communications. As primarily an advertising group, new disciplines were required to build a broadly based communications group. This strategy has been pursued through both organic development as well as acquisition. The Group has significantly strengthened its marketing services capabilities in the United States and created leading networks in business communications and branding and design. Whilst difficult trading conditions have slowed progress, one difficult year does not change the fact that the Group has built some excellent operations that have been integrated to form leading networks in their respective markets. Cordiant is now able to connect branding and design to advertising and marketing services, and in turn connect each to the specialist services of healthcare and business communications.

Allied Domecq, the Group's largest new business win for a number of years, is testament to this strategy. Firstly, Allied Domecq consolidated its marketing services account at 141 Worldwide. 141 Worldwide is now present in 56 countries and has been built principally through organic development. With the consolidation trend in marketing services still in its infancy, but gaining momentum, there are few networks in a position to benefit from global account consolidation. 141 Worldwide is one of them. Secondly, Allied Domecq appointed Fitch Worldwide for all new product design and innovation. Previously this opportunity would have gone to a third party. The broader range of disciplines within the Group will enable it to achieve growth through both existing client budgets and from being able to sell integrated client solutions where appropriate to new clients. The integrated model that the Group can now offer clients – particularly combining Bates and 141 to deliver marketing services solutions on a global basis – provides an important distinction from many of the Group's competitors and one that is to be capitalised on, in order to win further international business.

Steps were also taken in 2001 to create shareholder value from core assets. The public listing of Scholz & Friends has empowered a strong management team and provided the agency with a new beginning, new positioning and new opportunities. Leveraging its highly regarded franchise and status as Germany's No.1 creative agency, Scholz & Friends has had an excellent start to life as a public company, and is currently enjoying a strong new business start to the year. The merger of Zenith Media and Publicis' Optimedia crystallized a minimum valuation with significant upside potential for the Group. In an industry where size matters, Cordiant has turned a 50% stake in the world's no.10 into a 25% stake in the world's no.4 media agency.

The Group has made a number of important management changes in 2002. The appointment of David Hearn as Chairman and CEO of Bates Worldwide is a major positive for the Group. David has vast experience of running a global business and has proven ability in delivering results. With Cordiant's margin reliant on progress in its core-advertising network, David's experience will prove invaluable. The new CEO will be supported by three Regional Presidents all appointed from within, and the CEO of 141 Worldwide. Bill Whitehead and Ian Smith are the new Regional Presidents for Bates Americas and Bates Asia-Pacific respectively, whilst Toby Hoare has been appointed Regional President, Bates Europe.

## **FINANCIAL REVIEW**

Revenue growth, where appropriate, has been disclosed on both a reported and an underlying basis, meaning at constant exchange rates and after taking the 2000 comparative revenues from acquisitions into account. In the sections that follow operating profit, operating margin and earnings have been disclosed before goodwill amortisation, exceptional goodwill impairment charges and exceptional operating expenses, to highlight the underlying performance of the Group's operations.

### **Operating performance**

Group revenues increased by 17.9% to £605.0 million (\$871.2 million). However, revenues decreased by 8.0% on an underlying basis. Second-half revenue declines had a significant impact on profitability, with operating profit (before exceptional items and goodwill charges) falling by 40.6% to £36.5 million (\$52.6 million). The Group achieved an operating margin of 6.0% down from 12.0% in 2000.

### **Geographical analysis**

#### **United Kingdom**

Reported revenues increased by 41.0% to £118.6 million (\$170.8 million). On an underlying basis revenues decreased by 3.3%. Operating profits totalled £13.7 million (\$19.7 million), with operating margins increasing to 11.5% from 9.4% in 2000, principally due to the margin contribution from the acquired Specialist Communications operations and improved profitability in the Group's advertising business.

#### **North America**

North American revenues increased by 28.1% to £190.3 million (\$274.0 million). Revenues declined by 14.5% on an underlying basis. Operating profits totalled £12.3 million (\$17.7 million) with operating margins decreasing to 6.5% from 10.7% in 2000. Significant declines were experienced in Specialist Communications, especially in project based areas and in servicing technology related clients in North America. The Group's principal Advertising and Integrated Marketing businesses showed greater resilience, experiencing a more modest decline overall.

The recent loss of the Hyundai National media account has resulted in a review of the Hyundai National creative account. This review is in process and Bates North America is one of the remaining finalists.

### **Continental Europe**

Revenues in Continental Europe increased by 7.9% to £143.6 million (\$206.8 million). Revenues declined by 1.9% on an underlying basis. Operating profits totalled £5.8 million (\$8.4 million), with operating margins down to 4.0% from 12.0% in 2000. Underlying revenue growth in the first six months of 2001 was offset by a rapid deterioration in media spending across the region in the second half of the year, which had a significant impact on operating margins.

### **Asia Pacific and Latin America**

Asia Pacific and Latin American revenues increased by 3.5% to £152.5 million (\$219.6 million). On an underlying basis revenues decreased by 8.2%. Growth in Bates Asia, from multinational clients, particularly in Greater China, was offset by the difficult trading conditions in Korea and Australia, with both markets experiencing substantial cutbacks in client spending. Operating profits totalled £4.7 million (\$6.8 million), with operating margins declining to 3.1% from 14.7% in 2000.

### **Business Segment analysis**

#### **Advertising and Integrated Marketing**

Advertising and Integrated Marketing revenues increased by 1.5% to £447.9 million (\$645.0 million), but declined by 7.3% on an underlying basis. Operating profits totalled £21.3 million (\$30.7 million) with operating margins declining to 4.8% from 10.3% in 2000, as significant revenue reductions in the second half impacted profitability.

Advertising and Integrated Marketing includes the results of the Group's advertising networks and 141 Worldwide, its global marketing services network.

#### **Specialist Communications**

Specialist Communications revenues increased by 119.7% to £157.1 million (\$226.2 million). Revenues decreased by 10.2% on an underlying basis. Operating profits totalled £15.2 million (\$21.9 million) with operating margins of 9.7% in 2001, down from 22.5% in 2000. Underlying revenue declines were most pronounced in the Group's North American Specialist Communications operations, due to the deferral and cancellation of project based assignments.

The Group's interactive operation, CCG.XM, incurred an operating loss of £4.0 million (\$5.8 million) in 2001. Losses in 2000 amounted to £5.7 million (\$8.7 million). CCG.XM has been retrenched and now forms part of the operations of 141 Worldwide.

Specialist Communications includes the results of the Group's healthcare marketing, business communications, branding and design and interactive operations. In future, the results of CCG.XM will be included in Advertising and Integrated Marketing.

#### **Exceptional operating expenses**

During 2001, Cordiant announced a wide ranging programme to reduce the Group's cost base. Headcount reductions and other cost-related initiatives including the merger or consolidation of a number of the Group's operating units and the closure or re-organisation of certain loss-making operations, resulted in a total exceptional operating charge of £27.6 million (\$39.7 million) in 2001.

The exceptional operating charge included severance costs of £20.9 million (\$30.1 million), and £6.7 million (\$9.6 million) attributable to property provisions and asset write-downs. As a result of the action taken in 2001 the Group is targeting further cost savings in excess of £30.0 million (\$43.2 million) in 2002.

### **Operating costs**

The number of staff employed by the Group as at 31 December 2001 was 9,099, compared to 9,518 at the start of the year, showing a net decrease of 4.4% and 9.9% on an underlying basis taking acquisitions into account. During the year, gross headcount reductions through severance were 1,594, which represented 16.7% of opening headcount. Revenue per head was £64,200 in 2001, a decrease of 1.2% at constant exchange rates. Total staff cost per head (excluding severance) was £42,100 in 2001, an increase of 3.7% on the same basis.

The Group's total staff cost to revenue ratio, excluding severance, increased in 2001 to 65.6%, an increase of 3.1% as a percentage of revenue. Fixed staff costs as a proportion of revenue increased in 2001 to 60.3%, from 54.3% in 2000. Variable staff costs as a proportion of revenue decreased from 7.9% in 2000, to 5.3% in 2001. These trends reflect the lag between a decline in revenue and reduced fixed staff costs from headcount reductions and the benefits of flexibility afforded by the variable element of total staff costs.

### **Joint ventures and associates**

In September 2001, Cordiant and Publicis Groupe SA created the world's fourth-largest media communications group by the transfer of units of Optimedia and Zenith Media into the Zenith Optimedia Group, a new UK based holding company. Cordiant holds 25% and Publicis Groupe SA 75% of the Zenith Optimedia Group.

The Group's share of operating profits, after goodwill amortisation in 2001 of £0.4 million (\$0.6 million), primarily from Zenith and since 28 September 2001, the Zenith Optimedia Group, increased to £6.1 million (\$8.7 million) from £5.6 million (\$8.5 million) in 2000.

### **Financial items, taxation and returns attributable to shareholders**

Net finance costs totalled £16.9 million (\$24.3 million), which includes the Group's share of joint venture and associated undertakings interest income and imputed interest charged in accordance with FRS 12.

The tax charge for the year was £4.5 million (\$6.5 million). Equity minority interests totalled £2.3 million (\$3.3 million), a decrease of 60.3% on last year due principally to weaker trading in Korea.

The 2000 results have been restated to reflect the adoption of FRS 19 "Deferred Tax". This has led to a prior year adjustment to reserves of £4.1 million. Of this amount, £2.5 million (\$3.8 million) has resulted in the reduction in the tax charge shown in the 2000 profit and loss account, with the remaining £1.6 million (\$2.4 million) recorded in the year ended 31 December 1999. The balance sheet as at 31 December 2000 has also been restated to show the creation of a deferred tax asset of £4.1 million.

Earnings attributable to Ordinary shareholders before goodwill amortisation, exceptional goodwill impairment charges and exceptional operating expenses were £14.1 million (\$20.3 million). Adjusted diluted headline earnings per share was 3.6p (ADS 25.9¢) compared to 11.4p (restated) (ADS 86.6¢) in 2000. The reported loss, after goodwill amortisation, exceptional goodwill impairment charges and exceptional operating expenses, attributable to Ordinary shareholders was £277.6 million (\$399.7 million).

### **Cash flow and funding**

As at 31 December 2001 the Group had a net debt balance of £143.0 million (\$208.8 million) and average net debt for the year was £171.0 million (\$246.2 million). In 2000 average net debt was £68.7 million (\$104.4 million). The increase in average net debt is principally due to the deferred consideration paid in respect of Diamond Ad and the acquisition funding of the Lighthouse transaction, both in September 2000, and the impact of reduced profitability and exceptional cash operating expenses in the second half of 2001, offsetting the underlying cash generation of the Group.

Net operating cash outflow for the Group (defined as operating profit pre-exceptional charges plus depreciation, goodwill amortisation and impairment, less returns on investment and servicing of finance and taxation paid) totalled £23.8 million (\$34.3 million). Capital expenditure and financial investment totalled £24.7 million (\$35.6 million). Net cash outflow from acquisitions and disposals was £13.6 million (\$19.6 million). Utilisation of property provisions totalled £3.3 million (\$4.8 million).

In April 2001, the Group issued \$175.0 million of Guaranteed Senior Notes (“Notes”) via a private placement with institutional lenders. The proceeds of this issue were used to repay and cancel committed bank facilities of \$175.0 million maturing in November 2001, leaving in place committed syndicated bank facilities of up to \$225.0 million with a final maturity date of 8 November 2004.

The Company has now agreed definitive documentation with its banks and the holders of the Notes amending the terms of the Group’s principal financing arrangements. New financial covenants have been set to reflect the change in operating performance of the Group following the industry downturn in 2001. As a result of the requirement to amend the financial covenants, the Group will incur increased financing costs, further details of which are given in Note 13. The Group expects to incur incremental financing costs of approximately £5.0-£6.0 million per annum as a result of the renegotiation of the facilities, based on current debt levels. In addition, the Group is also subject to certain restrictions on its uses of cash flow, including acquisition payments, dividends and the use of disposal proceeds, and the holders of the Notes will be entitled to require the Company to repay them in November 2004 (or the date of any refinancing of the bank facilities if earlier) with a “make-whole” premium for prepayment, unless the Group meets certain financial tests at that time.

### **Goodwill amortisation and impairment**

In accordance with FRS10, purchased goodwill arising from acquisitions on and after 1 January 1998 had previously been capitalised as an intangible fixed asset and assigned an indefinite useful economic life. In light of developing best practice, the Directors have taken the opportunity to re-evaluate the anticipated economic life of the goodwill arising on acquisitions made subsequent to 1 January 1998 and have revised their opinion that this has an indefinite life. From 1 January 2001, goodwill is amortised on a straight line basis over useful economic lives of up to 20 years from the date of acquisition. The full year goodwill amortisation charge in 2001 was £44.1 million (\$63.5 million).

In addition to an annual amortisation charge, goodwill is reviewed for impairment at the end of the first full financial year following acquisition, and in other periods if events or changes in circumstance indicate that the carrying value may not be fully recoverable. The impact of the economic slowdown on the marketing communications sector has resulted in the carrying value of goodwill capitalised in respect of certain acquisitions being impaired. The goodwill impairment charge for 2001 was £224.8 million (\$323.7 million).

**Dividend**

In view of the Group's requirements to preserve cash resources to support its operations and the restrictions agreed with the Group's principal lenders, the Board does not recommend the payment of a dividend in respect of 2001.

**Corporate Development**

In November 2001 Cordiant completed the merger of Scholz & Friends with United Visions Entertainment (UVE). UVE specialises in the production of live entertainment programs for television and the internet. The merged operation, Scholz & Friends AG, is listed on the Geregelter Markt, the main German regulated market of the Frankfurt Stock Exchange. Scholz & Friends AG is the first publicly quoted advertising and marketing communications group in Germany, the world's third largest communications market. Cordiant owns 77% of Scholz & Friends AG.

During 2001 the Group made a number of strategic acquisitions to further enhance its position in key market segments. The acquisitions of Gallagher & Kelly, Bulletin International and IBI significantly augmented the Group's business communications capabilities. In July 2001, Cordiant acquired PCI, a leading live communications agency based in London.

**Outlook**

Trading conditions are likely to remain difficult in 2002 and the Group is not budgeting for a return to underlying revenue growth in the current year. Whilst revenues have declined during the first quarter on a year on year basis, there are signs that the market is stabilising. The Group's profitability targets for the first quarter have been met.

Management is focused on delivering a recovery in earnings through stringent cost control that is targeted to improve operating margins by 50% in 2002, as the Group benefits from last year's cost reduction initiatives. The Group remains firmly committed to the medium-term strategy of growing the proportion of higher margin non-advertising revenues, but is focused in the short-term on improving the operating performance of the core advertising business, which remains key to the Group's margin prospects.



**CORDIANT COMMUNICATIONS GROUP PLC**  
**CONSOLIDATED PROFIT & LOSS ACCOUNT**

	Note	<i>Continuing Operations</i>		Total 2001 £ m	2000 Restated (see note 1) £ m
		2001 £ m	2001 £ m		
<b>Group revenue</b>	2	584.6	20.4	605.0	513.0
Operating expenses before goodwill amortisation, exceptional goodwill impairment charges and exceptional operating expenses		(552.4)	(16.1)	(568.5)	(451.6)
<b>Group operating profit before goodwill amortisation, exceptional goodwill impairment charges and exceptional operating expenses</b>		32.2	4.3	36.5	61.4
Goodwill amortisation		(38.0)	(6.1)	(44.1)	-
Exceptional goodwill impairment charges		(196.6)	(28.2)	(224.8)	-
Exceptional operating expenses	3	(26.9)	(0.7)	(27.6)	-
<b>Group operating (loss)/ profit</b>	2	(229.3)	(30.7)	(260.0)	61.4
Share of operating profits:					
Joint ventures				4.7	3.4
Associated undertakings				1.4	2.2
<b>(Loss)/ profit on ordinary activities before interest and tax</b>				(253.9)	67.0
Net interest payable and similar items	4			(16.0)	(8.4)
FRS 12 – finance charge				(0.9)	(1.1)
Net finance costs				(16.9)	(9.5)
<b>(Loss)/ profit on ordinary activities before tax</b>				(270.8)	57.5
Tax on ordinary activities	5			(4.5)	(15.6)
<b>(Loss)/ profit on ordinary activities after tax</b>				(275.3)	41.9
Equity minority interests				(2.3)	(5.8)
<b>(Loss)/ profit attributable to Ordinary shareholders</b>				(277.6)	36.1
Dividends	6			-	(8.4)
<b>Retained (loss)/ profit for the financial year</b>	15			(277.6)	27.7
Basic (loss)/ earnings per Ordinary share	7			(71.3)p	12.3p
Diluted (loss)/ earnings per Ordinary share	7			(71.3)p	11.4p
Basic headline (loss)/ earnings per Ordinary share	7			(2.1)p	12.3p
Diluted headline (loss)/ earnings per Ordinary share	7			(2.1)p	11.4p
Adjusted basic headline earnings per Ordinary share	7			3.6p	12.3p
Adjusted diluted headline earnings per Ordinary share	7			3.6p	11.4p
Ordinary dividend per share	6			-	2.1p

**CORDIANT COMMUNICATIONS GROUP PLC**  
**CONSOLIDATED PROFIT & LOSS ACCOUNT**

(Figures in US\$ millions)*	<i>Continuing Operations</i>		<b>Total 2001 US\$ m</b>	<b>2000 Restated (see note 1) US\$ m</b>
	<i>Acquisitions</i>			
	<b>2001 US\$ m</b>	<b>2001 US\$ m</b>		
<b>Group revenue</b>	841.8	29.4	871.2	779.7
Operating expenses before goodwill amortisation, exceptional goodwill impairment charges and exceptional operating expenses	(795.4)	(23.2)	(818.6)	(686.4)
<b>Group operating profit before goodwill amortisation, exceptional goodwill impairment charges and exceptional operating expenses</b>	46.4	6.2	52.6	93.3
Goodwill amortisation	(54.7)	(8.8)	(63.5)	-
Exceptional goodwill impairment charges	(283.1)	(40.6)	(323.7)	-
Exceptional operating expenses	(38.7)	(1.0)	(39.7)	-
<b>Group operating (loss)/ profit</b>	(330.1)	(44.2)	(374.3)	93.3
Share of operating profits:				
Joint ventures			6.7	5.2
Associated undertakings			2.0	3.3
<b>(Loss)/ profit on ordinary activities before interest and tax</b>			(365.6)	101.8
Net interest payable and similar items			(23.0)	(12.7)
FRS 12 – finance charge			(1.3)	(1.7)
Net finance costs			(24.3)	(14.4)
<b>(Loss)/ profit on ordinary activities before tax</b>			(389.9)	87.4
Tax on ordinary activities			(6.5)	(23.7)
<b>(Loss)/ profit on ordinary activities after tax</b>			(396.4)	63.7
Equity minority interests			(3.3)	(8.7)
<b>(Loss)/ profit attributable to Ordinary shareholders</b>			(399.7)	55.0
Dividends			-	(12.8)
<b>Retained (loss)/ profit for the financial year</b>			(399.7)	42.2
Basic (loss)/ earnings per ADS			(513.4)¢	93.5¢
Diluted (loss)/ earnings per ADS			(513.4)¢	86.6¢
Basic headline (loss)/ earnings per ADS			(15.1)¢	93.5¢
Diluted headline (loss)/ earnings per ADS			(15.1)¢	86.6¢
Adjusted basic headline earnings per ADS			25.9¢	93.5¢
Adjusted diluted headline earnings per ADS			25.9¢	86.6¢
Ordinary dividend per ADS			-	16.0¢
Average rate of exchange			1.44	1.52
Closing rate of exchange			1.46	1.49

\* The US\$ figures are presented for convenience purposes only, according to UK GAAP, and are translated at the average rate shown above.

\*\* One American Depository Share (ADS) is equivalent to five Ordinary shares.

**CORDIANT COMMUNICATIONS GROUP PLC**  
**CONSOLIDATED CASH FLOW STATEMENT**

	Note	2001 £ m	2000 £ m
<b>Net cash inflow from operating activities</b>	8	43.4	45.3
Dividends from associated undertakings and joint ventures		5.3	1.6
Returns on investments and servicing of finance	9	(17.2)	(11.5)
Taxation	9	(13.4)	(11.3)
Capital expenditure and financial investment	9	(24.7)	(23.5)
Acquisitions and disposals	9	(13.6)	(46.8)
Equity dividends paid		(8.1)	(5.1)
<b>Cash outflow before financing</b>		<u>(28.3)</u>	<u>(51.3)</u>
Management of liquid resources	9	0.6	5.2
Issues of ordinary share capital		4.1	8.3
External loans drawn less repaid		(70.1)	53.4
Guaranteed senior notes due after one year		119.9	-
Other movements		(1.7)	0.5
<b>Net cash inflow from financing</b>		<u>52.8</u>	<u>67.4</u>
<b>Increase in cash for the year</b>		<u>24.5</u>	<u>16.1</u>
<b>Reconciliation of net cash flow to movement in net funds:</b>			
Increase in cash for the year		24.5	16.1
Cash inflow from debt financing		(48.7)	(56.3)
Cash inflow from cash deposits		(0.6)	(5.2)
Loans acquired with subsidiaries		(6.8)	(66.2)
Translation difference and non-cash movements		0.5	(2.7)
<b>Movement in net funds in the year</b>		<u>(31.1)</u>	<u>(114.3)</u>
Net (debt)/ funds at beginning of year	10	(111.9)	2.4
<b>Net debt at end of year</b>	10	<u>(143.0)</u>	<u>(111.9)</u>

**CONSOLIDATED STATEMENT OF**

**TOTAL RECOGNISED GAINS AND LOSSES**

	Note	2001 £ m	2000 Restated (see note 1) £ m
(Loss)/ profit attributable to Ordinary shareholders		(277.6)	36.1
Translation adjustment		3.7	(1.3)
Unrealised gain on disposal of joint venture and subsidiary undertaking	15	44.4	-
<b>Total recognised (losses)/ gains relating to the year</b>		<u>(229.5)</u>	<u>34.8</u>
Prior year adjustment (as explained in note 1)		4.1	
<b>Total recognised losses since last annual report</b>		<u>(225.4)</u>	

**CORDIANT COMMUNICATIONS GROUP PLC**

**CONSOLIDATED BALANCE SHEET**

	Note	2001 £ m	2000 Restated (see note 1) £ m
<b>Fixed assets</b>			
Intangible assets – goodwill	11	478.3	711.8
Tangible assets		60.6	59.6
Investments		17.9	11.8
Investments in joint ventures			
Share of gross assets		152.9	-
Goodwill		38.2	-
Share of gross liabilities		(164.9)	-
		26.2	-
		583.0	783.2
<b>Current assets</b>			
Work in progress		24.8	33.6
Debtors – due within one year		418.3	456.8
Debtors – due after one year		27.4	25.5
Investments		0.9	2.4
Cash at bank and in hand		123.5	99.8
		594.9	618.1
<b>Creditors - due within one year</b>	13	(556.3)	(741.7)
<b>Net current assets/ (liabilities)</b>		38.6	(123.6)
<b>Total assets less current liabilities</b>		621.6	659.6
<b>Creditors - due after one year</b>	13	(264.0)	(130.7)
<b>Provision for joint venture deficit</b>			
Share of gross assets		-	130.6
Share of gross liabilities		-	(142.7)
		-	(12.1)
<b>Provisions for liabilities and charges</b>	14	(40.5)	(40.6)
<b>Net assets</b>		317.1	476.2
<b>Capital and reserves</b>			
Called up share capital	15	200.4	182.3
Share premium account	15	178.4	137.2
Other reserves	15	214.4	311.5
Profit and loss account	15	(286.4)	(163.6)
<b>Equity shareholders' funds</b>		306.8	467.4
Equity minority interests		10.3	8.8
<b>Total capital employed</b>		317.1	476.2

# CORDIANT COMMUNICATIONS GROUP PLC

## NOTES

### *1. Accounting policies and presentation*

The financial information set out does not constitute the statutory accounts for Cordiant Communications Group plc for the years ended 31 December 2001 or 2000 but is derived from those accounts. Statutory accounts for 2000 have been delivered to the registrar of companies, and those for 2001 will be delivered following Cordiant's annual general meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985.

The consolidated financial statements comply with applicable accounting standards (UK GAAP) and have been prepared on the basis of accounting policies set out on pages 53 to 55 of Cordiant's 2000 Report and Accounts, with the exception that the Group has adopted the following:

FRS 17 "Retirement Benefits" has been introduced during the year. The transitional rule contained in the standard has been applied resulting in some extra disclosures in the notes to the balance sheet. Otherwise, there has been no material impact on the Group's financial statements.

FRS 18 "Accounting Policies" has been adopted during the year. This has had no material impact on the Group's financial statements.

FRS 19 "Deferred Tax" has been adopted during the year which has resulted in a prior year adjustment. The impact in 2000 was to increase profit after tax and retained profits by £2.5 million. Shareholders' funds prior to 2000 have been increased by £1.6 million.

### *2. Segmental information*

<b>Revenue by geographical area</b>	<b>2001</b>	<b>2000</b>	<b>Change</b>	<b>Change</b>
	<b>£ m</b>	<b>£ m</b>	<b>Reported</b>	<b>Underlying</b>
			<b>%</b>	<b>%</b>
United Kingdom	118.6	84.1	41.0	(3.3)
North America	190.3	148.5	28.1	(14.5)
Continental Europe	143.6	133.1	7.9	(1.9)
Asia Pacific and Latin America	152.5	147.3	3.5	(8.2)
<b>Total</b>	<b>605.0</b>	<b>513.0</b>	<b>17.9</b>	<b>(8.0)</b>

Operating profit by geographical area	2001	2000	2001	Margin
	£ m	£ m	%	2000 %
United Kingdom	13.7	7.9	11.5	9.4
North America	12.3	15.9	6.5	10.7
Continental Europe	5.8	16.0	4.0	12.0
Asia Pacific and Latin America	4.7	21.6	3.1	14.7
<b>Group operating profit before goodwill amortisation, exceptional goodwill impairment charges and exceptional operating expenses</b>	<b>36.5</b>	<b>61.4</b>	<b>6.0</b>	<b>12.0</b>
Goodwill amortisation and exceptional goodwill impairment charges	(268.9)	-		
Exceptional operating expenses	(27.6)	-		
<b>Total operating (loss)/ profit</b>	<b>(260.0)</b>	<b>61.4</b>		

Revenue by business segment	2001	2000	Change	Change
	£ m	£ m	Reported %	Underlying %
Advertising and Integrated Marketing	447.9	441.5	1.5	(7.3)
Specialist Communications	157.1	71.5	119.7	(10.2)
<b>Total</b>	<b>605.0</b>	<b>513.0</b>	<b>17.9</b>	<b>(8.0)</b>

Operating profit by business segment	2001	2000	2001	Margin
	£ m	£ m	%	2000 %
Advertising and Integrated Marketing	21.3	45.3	4.8	10.3
Specialist Communications	15.2	16.1	9.7	22.5
<b>Operating profit before goodwill amortisation, exceptional goodwill impairment charges and exceptional operating expenses</b>	<b>36.5</b>	<b>61.4</b>	<b>6.0</b>	<b>12.0</b>
Goodwill amortisation and exceptional goodwill impairment charges	(268.9)	-		
Exceptional operating expenses	(27.6)	-		
<b>Total operating (loss)/ profit</b>	<b>(260.0)</b>	<b>61.4</b>		

### 3. Exceptional operating expenses

	2001 £ m
Severance	20.9
Property provisions	2.9
Asset write-downs	3.6
Other	0.2
<b>Total</b>	<b>27.6</b>

The tax effect of the exceptional operating items is an estimated credit of £5.2 million.

#### 4. Net interest payable and similar items

	2001 £ m	2000 £ m
Group	18.3	10.0
Joint ventures	(2.2)	(1.7)
Associated undertakings	(0.1)	0.1
<b>Total</b>	<b>16.0</b>	<b>8.4</b>

#### 5. Taxation

	2001 £ m	2000 Restated £ m
Group	1.0	13.1
Joint ventures	3.0	2.0
Associated undertakings	0.5	0.5
<b>Total</b>	<b>4.5</b>	<b>15.6</b>

#### 6. Dividends

The Board does not recommend the payment of a dividend in respect of 2001. The dividend for the year ended 31 December 2000 was 2.1p per Ordinary share at a cost of £8.4 million.

#### 7. Earnings per share

	2001 £ m	2000 Restated £ m
(Losses)/ earnings attributable to Ordinary shareholders	(277.6)	36.1
Goodwill amortisation and impairment*	269.3	-
Headline (losses)/ earnings**	(8.3)	36.1
Exceptional operating items (tax effected)	22.4	-
<b>Adjusted earnings***</b>	<b>14.1</b>	<b>36.1</b>
	<b>Shares m</b>	<b>Shares m</b>
Weighted average number of shares	389.2	294.0
Dilutive effect of options and contingent consideration	-	24.0
<b>Diluted weighted average number of shares</b>	<b>389.2</b>	<b>318.0</b>

Basic earnings per share is calculated using profits attributable to Ordinary shareholders and weighted average number of shares. Diluted earnings per share is calculated using profits attributable to Ordinary shareholders and diluted weighted average number of shares.

Basic headline earnings per share is calculated using headline earnings and weighted average number of shares. Diluted headline earnings per share is calculated using headline earnings and diluted weighted average number of shares.

As there is a basic loss per share, options and contingent consideration have no dilutive effect.

\* Includes £0.4 million amortisation of goodwill on the joint venture.

\*\* The definition of headline earnings is given in the Statement of Investment Practice No.1 published by the United Kingdom Society of Investment Professionals. Amongst other items, Headline earnings excludes items relating to the amortisation and impairment of goodwill capitalised on the balance sheet, and has been disclosed to assist the reader's understanding of the Group's underlying performance.

\*\*\* Adjusted earnings per share is based on continuing operating profits before goodwill charges and exceptional operating items and is presented to show a clearer representation of the underlying results of the business going forward. Basic adjusted earnings per share is calculated using adjusted earnings and weighted average number of shares. Diluted adjusted earnings per share is calculated using adjusted earnings and weighted average number of shares.

#### 8. Reconciliation of Group operating (loss)/ profit to net cash inflow from operating activities

	2001 £ m	2000 £ m
Group operating (loss)/ profit	(260.0)	61.4
Depreciation, amortisation - ongoing	62.0	13.6
Depreciation and impairment – exceptional	228.4	-
Loss on sale of tangible fixed assets	0.9	-
Prepaid property lease	(1.1)	(8.3)
Decrease in work in progress	10.6	1.4
Decrease/ (increase) in debtors	52.6	(1.8)
Decrease in creditors	(46.7)	(17.0)
Utilisation of property provisions	(3.3)	(4.0)
<b>Net cash inflow from operating activities</b>	<b>43.4</b>	<b>45.3</b>

#### 9. Analysis of cash flow items

	2001 £ m	2000 £ m
<b>Returns on investments and servicing of finance</b>		
Interest received	2.7	3.7
Interest paid	(16.8)	(10.7)
Interest element of finance lease rental payments	(0.1)	(0.1)
Bank fees	(1.5)	(2.3)
Dividends paid to minorities	(1.5)	(2.1)
<b>Net cash outflow from returns on investments and servicing of finance</b>	<b>(17.2)</b>	<b>(11.5)</b>
<b>Taxation paid</b>		
UK corporation tax paid	(3.2)	(1.3)
Overseas tax paid	(10.2)	(10.0)
<b>Net tax paid</b>	<b>(13.4)</b>	<b>(11.3)</b>
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(21.5)	(19.6)
Sale of tangible fixed assets	1.5	1.5
Purchase of other fixed asset investments	(4.9)	(5.6)
Sale of other fixed asset investments	0.2	0.2
<b>Net cash outflow from capital expenditure and financial investment</b>	<b>(24.7)</b>	<b>(23.5)</b>
<b>Acquisitions and disposals</b>		
Purchase of subsidiary undertakings	(23.0)	(70.2)
Purchase of joint venture and associated undertakings	(0.7)	(1.0)
Sale of joint venture	(0.6)	-
Net cash acquired with subsidiaries	10.7	24.4
<b>Net cash outflow from acquisitions and disposals</b>	<b>(13.6)</b>	<b>(46.8)</b>



**Management of liquid resources**

Cash deposits	0.6	5.2
<b>Net cash outflow from management of liquid resources</b>	<b>0.6</b>	<b>5.2</b>

**10. Analysis of net debt**

	At 1 January 2001 £ m	Cash flows £ m	Acquisitions * £ m	Exchange and non-cash Movements £ m	At 31 December 2001 £ m
Cash at bank and in hand	99.8	26.0	-	(2.3)	123.5
Bank overdrafts	(9.0)	(1.5)	-	0.1	(10.4)
	<u>90.8</u>	<u>24.5</u>	<u>-</u>	<u>(2.2)</u>	<u>113.1</u>
External debt due within one year	(127.3)	114.4	(6.8)	0.8	(18.9)
External debt due after one year	(73.0)	(164.2)	-	1.9	(235.3)
Finance leases	(3.7)	1.1	-	0.1	(2.5)
	<u>(204.0)</u>	<u>(48.7)</u>	<u>(6.8)</u>	<u>2.8</u>	<u>(256.7)</u>
Cash deposits – current asset investments	1.3	(0.6)	-	(0.1)	0.6
<b>Net debt</b>	<b>(111.9)</b>	<b>(24.8)</b>	<b>(6.8)</b>	<b>0.5</b>	<b>(143.0)</b>

\* Excluding cash and overdrafts.

**11. Intangible assets - goodwill**

	2001 £ m	2000 £ m
<b>Cost</b>		
At beginning of year	711.8	79.2
Additions	27.3	625.7
Translation adjustment	4.3	6.9
<b>At end of year</b>	<b>743.4</b>	<b>711.8</b>
<b>Amortisation</b>		
At beginning of year	-	-
Amortisation	(44.1)	-
Impairment	(224.8)	-
Translation adjustment	3.8	-
<b>At end of year</b>	<b>(265.1)</b>	<b>-</b>
<b>Net book value</b>		
At beginning of year	711.8	79.2
<b>At end of year</b>	<b>478.3</b>	<b>711.8</b>

The £31.6 million increase in cost during the year ended 31 December 2001 (including translation adjustments) consists of £80.3 million relating to acquisitions in the year less £48.7 million relating to movements in contingent consideration, other accruals and translation differences.

## *12. The effects of the acquisition of subsidiaries in 2001.*

**During the year the Group acquired the following subsidiaries.**

	<b>Date of Acquisition</b>
Microarts Corporation Inc.	5 January 2001
Gallagher & Kelly Public Relations Limited	3 April 2001
Bulletin International Limited	3 May 2001
International Business Information Inc.	16 July 2001
Presentation Communications International Limited	26 July 2001

It is not considered that these are individually material acquisitions to the Group and therefore, in accordance with the prescribed accounting standards, they have been aggregated in the tables below.

The table below summarises the aggregate of subsidiaries acquired by the Group during 2001:

	<b>£ m</b>
Goodwill capitalised	80.3
Tangible fixed assets	3.4
Work in progress	1.6
Debtors	14.3
Current investments	0.1
	99.7
	<b>£ m</b>
Loans and finance leases	6.8
Creditors	20.8
Cost of acquisitions:	
Acquisition costs less cash acquired	(2.0)
Ordinary shares issued	62.5
Contingent earnout accruals	11.6
	99.7

The following table sets out the book values of the identifiable assets and liabilities of all acquisitions made in 2001 and their value to the Group:

	<b>Book and Fair value To Group £ m</b>
Fixed assets	3.4
Current assets	27.2
Total assets	<u>30.6</u>
Creditors	(28.1)
Net assets	<u>2.5</u>
Goodwill	80.3
	<u>82.8</u>
<b>Satisfied by:</b>	
Shares issued	62.5
Acquisition costs and cash consideration	8.7
Contingent earnout accruals	11.6
<b>Total consideration</b>	<u><u>82.8</u></u>

No provisional material fair value adjustments were made to the book value of the identifiable assets and liabilities acquired.

The contingent earnout accruals are based on management's forecasts of the earnings of various underlying units.

	<b>2001 £m</b>
Net cash inflows in respect of the acquisitions comprised:	
Acquisition costs and cash consideration	8.7
Cash at bank and in hand	(11.2)
Bank overdrafts acquired	0.5
<b>Total</b>	<u>(2.0)</u>

### **13. Creditors**

	<b>Due within one year</b>		<b>Due after one year</b>	
	<b>2001 £ m</b>	<b>2000 £ m</b>	<b>2001 £ m</b>	<b>2000 £ m</b>
Bank loans, overdrafts and senior notes	29.3	136.3	235.3	73.0
Trade creditors	325.4	342.2	-	-
Taxation and social security	39.2	39.7	18.8	26.2
Other creditors	27.0	41.3	6.2	10.9
Accruals and deferred income	135.4	182.2	3.7	20.6
<b>Total</b>	<u><b>556.3</b></u>	<u><b>741.7</b></u>	<u><b>264.0</b></u>	<u><b>130.7</b></u>

In April 2002, the Group completed the re-negotiation of certain terms of its syndicated revolving credit facility and Guaranteed Senior Notes. The coupon payable on the Guaranteed Senior Notes was increased to 9.25% per annum from 7.61%. Interest payable on each advance under the syndicated credit facility is now LIBOR plus a margin of 3.25% per annum. Certain other deferred fees are payable depending on financial performance. The syndicated bank facilities and notes are secured by guarantees from certain subsidiaries, a general debenture over assets in the United Kingdom and pledges of shares of certain subsidiaries. In addition, the Group is also subject to certain restrictions on its use of cash flow, including acquisition payments, dividends and the use of disposal proceeds. The holders of the Guaranteed Senior Notes will be entitled to require the Company to pre-pay the notes in November 2004 (or upon any refinancing of the Group's syndicated bank facilities if earlier) with a 'make-whole' penalty, unless the Group meets certain financial tests at that time.

#### **14. Provisions for liabilities and charges**

These include property provisions of £20.0m (2000: £19.6m).

#### **15. Movement in shareholders' funds**

	Share Capital	Share Premium	Other Reserves	Profit & Loss Account Restated	Total Restated
	£ m	£ m	£ m	£ m	£ m
At beginning of the year	182.3	137.2	311.5	(167.7)	463.3
Prior year adjustment – deferred tax	-	-	-	4.1	4.1
At beginning of the year – restated	182.3	137.2	311.5	(163.6)	467.4
Consideration for acquisitions in the year	13.6	33.4	15.5	-	62.5
Adjustments to contingent consideration	1.8	1.7	(1.0)	-	2.5
Exercising of employee share schemes	2.7	6.1	(0.2)	(4.5)	4.1
Release of reserves against investment and loan provisions	-	-	(155.4)	155.4	-
Loss retained for the year	-	-	-	(277.6)	(277.6)
Gain on sale of joint venture and subsidiary undertaking - unrealised	-	-	44.4	-	44.4
Realisation of gain on sale of joint venture and subsidiary undertaking	-	-	(0.4)	0.4	-
Translation adjustment	-	-	-	3.7	3.7
Other movements	-	-	-	(0.2)	(0.2)
<b>At end of the year</b>	<b>200.4</b>	<b>178.4</b>	<b>214.4</b>	<b>(286.4)</b>	<b>306.8</b>

Other reserves at 31 December 2001 comprise merger reserve £29.8 million (2000: £250.7 million), shares to be issued £13.1 million (2000: £35.1 million), special reserve £25.7 million (2000: £25.7 million), warrant reserve £20.8 million (2000: £nil), an unrealised gain on the sale of joint venture and subsidiary undertaking of £44.0 million (2000: £nil) and other reserves of £81.0 million (2000: £nil).

The total movement in the merger reserve of £220.9 million arose following the acquisition, by issue of the Company's shares, of the Group's 100% interest in Bulletin International Limited, Gallagher & Kelly Public Relations Limited and Presentation Communications International Limited which increased the merger reserve by £15.5 million, the transfer of £5.4 million to the profit and loss reserve following the provision made against investments from prior years and also the redesignation of £231.0 million of the merger reserve to other reserves following Group restructuring.

As at 31 December 2001 the cumulative goodwill written off on acquisitions prior to 1 January 1998 amounted to £115.5 million (2000: £118.7 million). Of this movement, £3.4 million represented the recycling of goodwill included in the unrealised gain on the disposal of the subsidiary undertaking.

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Cordiant Communications Group plc is registered in England and Wales (Number 1320869) and its registered office is:  
121 - 141 Westbourne Terrace, London, W2 6JR.