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Corporate statement

Aegis is the holding company for Carat, the leading group of media communication specialists in Europe. Carat's national operating companies are leaders in most of their markets.

Our vision sees Carat established as the market leader in the media communications field building from our European position into a global group.

It sees Carat offering a service that goes far beyond media planning and buying, encompassing all aspects of media communications.

It sees Carat working in close partnership with its major clients on an international scale, accountable for maximising the effectiveness of their communication programmes.

Aegis ist die Holdinggesellschaft von Carat, dem führenden Konzern von Mediaspezialisten. Carat's Gesellschaften sind auf den meisten europäischen Märkten marktführend.

In unserem Verständnis sehen wir Carat als Marktführer auf dem Gebiet des Kommunikations-Experten etabliert, der sich von seiner Führungsposition in Europa zum globalen Konzern entwickelt.

Wir sehen Carat als Anbieter einer Dienstleistung, die weit über Planung, Streuung und Einkauf hinausgeht und sämtliche Aspekte der Marketingkommunikation erfaßt.

Wir sehen Carat in enger Partnerschaft mit unseren Kunden auf nationaler und internationaler Ebene zusammenarbeiten, verantwortlich für die Maximierung ihrer Kommunikationsprogramme.

Aegis è la holding finanziaria di Carat, un network di agenzie media indipendenti leader in Europa.

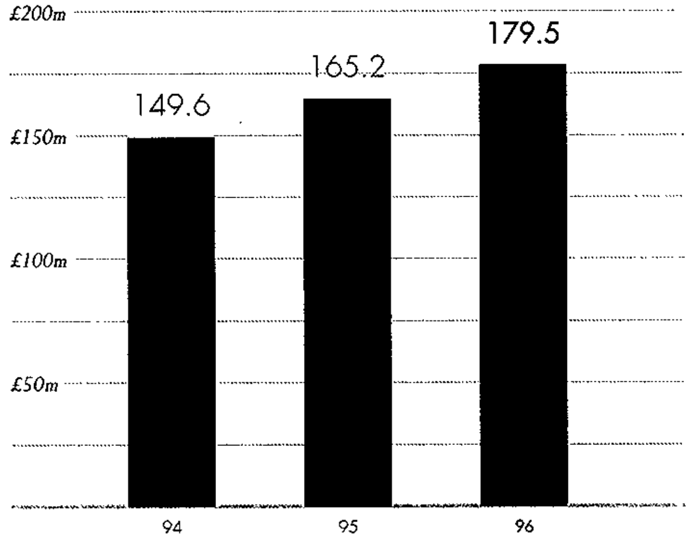
Carat, partendo da una posizione di leader in Europa, vuole diventare il market leader nel settore delle comunicazioni media a livello mondiale.

Carat vuole offrire un servizio che va ben oltre la pianificazione e acquisto dei media abbracciando tutti gli aspetti inerenti la veicolazione.

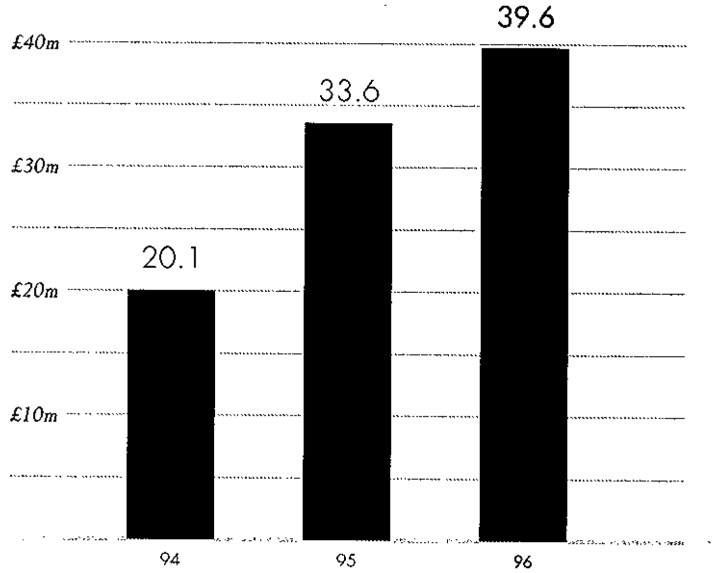
Carat vuole diventare un vero partner per i suoi principali clienti su scala internazionale, al fine di ottimizzare l'efficacia dei loro piani di comunicazione.

Financial highlights

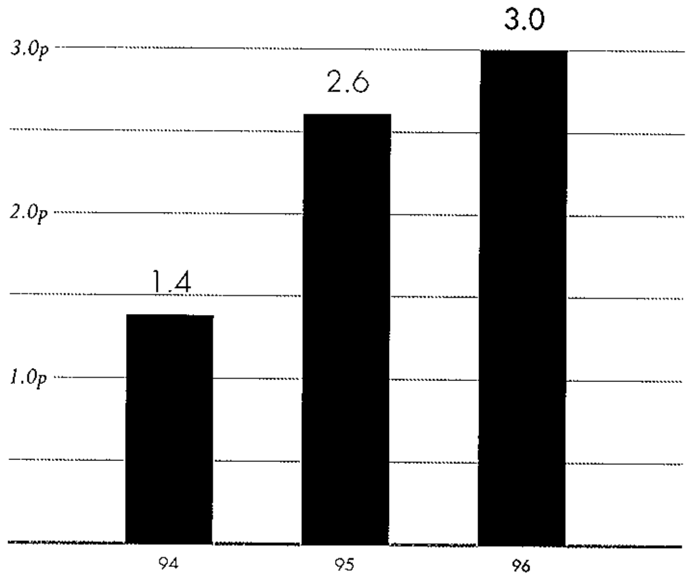
- Continued strong new business performance
- Improved margins and operating efficiency
- Profit before tax of £39.6 million up 18% on 1995
- Continued positive cash flow
- Full year dividend proposed of 0.6p
- Development of global network
- Further acquisitions in the USA



Gross income
£'m

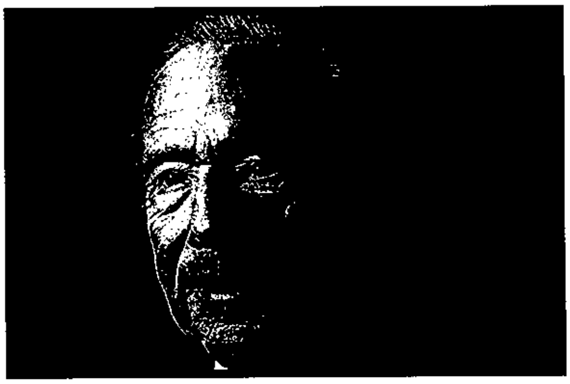


Profit before tax
£'m



Fully diluted earnings per share
pence

Chairman's statement



Aegis has continued to make substantial progress in 1996 with improved results and progress towards its ambition for global expansion. Management is committed to ensure that growth will be achieved.

Financial results

The 1996 results show a significant improvement in operating results despite modest growth in trading volumes. Margins have increased substantially and, as a result of a continued focus on expenditure, operating efficiency has also improved. The decrease in net interest costs has also made a considerable contribution.

Profit before tax of £39.6 million shows a total improvement of 18% over the preceding year. Excluding a one off charge of £1.4 million for the write off of prior year refinancing costs this improvement is in fact 22%. Overall, basic earnings per share has increased by 17% over 1995.

Group development

Aegis has continued its development in line with its 1996 objectives, particularly in relation to expanding from a European to a more global network. The acquisition of Media Buying Services in New York was completed in October and I am pleased to announce that early in 1997 we agreed to acquire three other organisations: International Communications Group ("ICG") based in Los Angeles, California, Media Marketing Assessment ("MMA") in Wilton, Connecticut and Mediekompetens in Gothenburg, Sweden.

In addition to these acquisitions we also established new Carat operations in Hong Kong (as a base for our work in the Asia Pacific region), Russia and Slovakia.

The 1993 refinancing was a turning point in the affairs of the Company and Aegis has succeeded in enhancing shareholders' returns. Pre-tax profits have risen from £20.1 million in 1994 to £39.6 million. Fully diluted earnings per share for the same period have increased from 1.4p to 3.0p. The recent acquisitions, carefully selected, will I am sure contribute towards a continued improvement in shareholder value. The same financially prudent basis will guide us in any future investment.

Management and Board

With the exception of the resignation of Bruce Crawford in April 1996, there were no changes in the Board of Aegis Group plc during the year.

In accordance with best practice I resigned as Chairman of the Board's Audit Committee but remain an ordinary member of the Committee. Sir Peter Thompson has assumed the Chairmanship.

Current trading

1997 has commenced satisfactorily for the Group. Profits are ahead of the levels established in the preceding year. In the first three months of 1997 the annual value of new business wins was approximately $255 million. Accounts won include Kraft Jacob Suchard (France), Sat 1 (Germany), Telefonica (Spain), UK Charities Lottery, and Alberto Culver (USA).

Dividend

An interim dividend of 0.25 pence per ordinary share was declared and paid earlier in the year. The Board has recommended the payment of a final dividend of 0.35 pence per ordinary share making 0.6 pence per ordinary share in total for the year.

The future

The Group has continued to progress in 1996 and management is working hard to fulfil its objectives and the mission they have before them. I would like to take this opportunity to thank everyone in the Group for their hard work towards achieving the 1996 results. Their contribution is fundamental to the performance reflected in this report.

I am confident that Aegis will continue to be successful in 1997 in furthering its strategic ambitions for the benefit of our shareholders.

Frank S Law CBE
Chairman

Chief Executive's review

1996 was a good year for Aegis. The Group has continued to develop well with strong trading and financial results in most areas of the business. Significant progress has also been made towards achieving key strategic objectives. We continue to have great confidence in the Group's future.

Business overview

Group operations have shown further strong progress in 1996.

Generally, market conditions – particularly in continental Europe – were quite challenging in 1996 and advertising growth was less than expected at around 4%, reflecting sluggish economic conditions. It is encouraging therefore that the Group has made good progress against this background.

Turnover increased by 2% from 1995. While this was less than anticipated, the headline number was distorted by the closure of a German trading unit, CMRZ, at the beginning of 1996. Excluding this, and also adjusting for the switch by several Italian clients to direct billing with the media (without affecting our income), Group turnover increased by 5% compared with 1995, ahead of estimated market growth.

New business results have again been strong, with net annual billings gains of £278 million. This exceeded our 1995 performance by 7%. Overall, we extended our position as market leader in Europe with a market share above 12%. This is more than double our nearest competitor.

Performance in most countries has substantially improved. France and the UK had particularly strong years with growth well ahead of the market. Germany had a disappointing year on turnover due to tough market conditions and the closure of CMRZ, but performed well financially. Both Spain and Italy continue to make progress and are winning substantial new business. Significant growth has also been attained in the emerging central and eastern European markets.

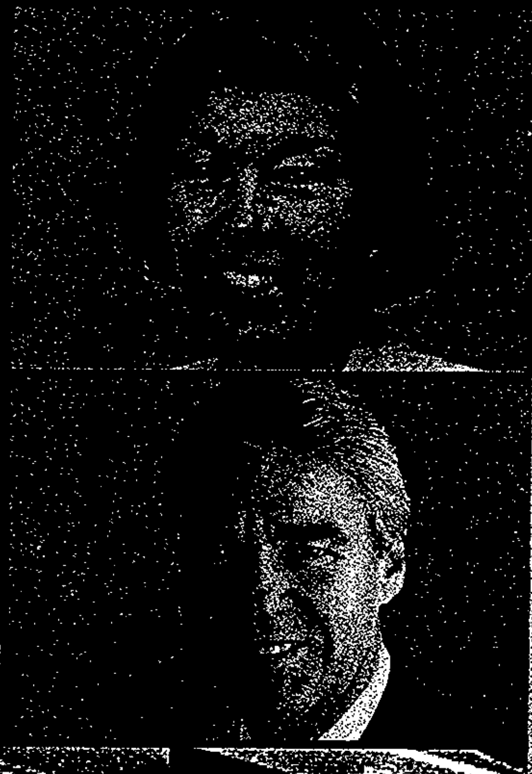
There was a significant increase in gross margin to 5.2% from 4.9% in 1995. It is encouraging to see the Group's strategic focus on more value-added upstream services starting to be reflected in margin progress. We are now seeing meaningful and growing income from services outside the traditional buying and planning arena. These include media strategy, research, proprietary information, database marketing, two-way communication and sponsorship.

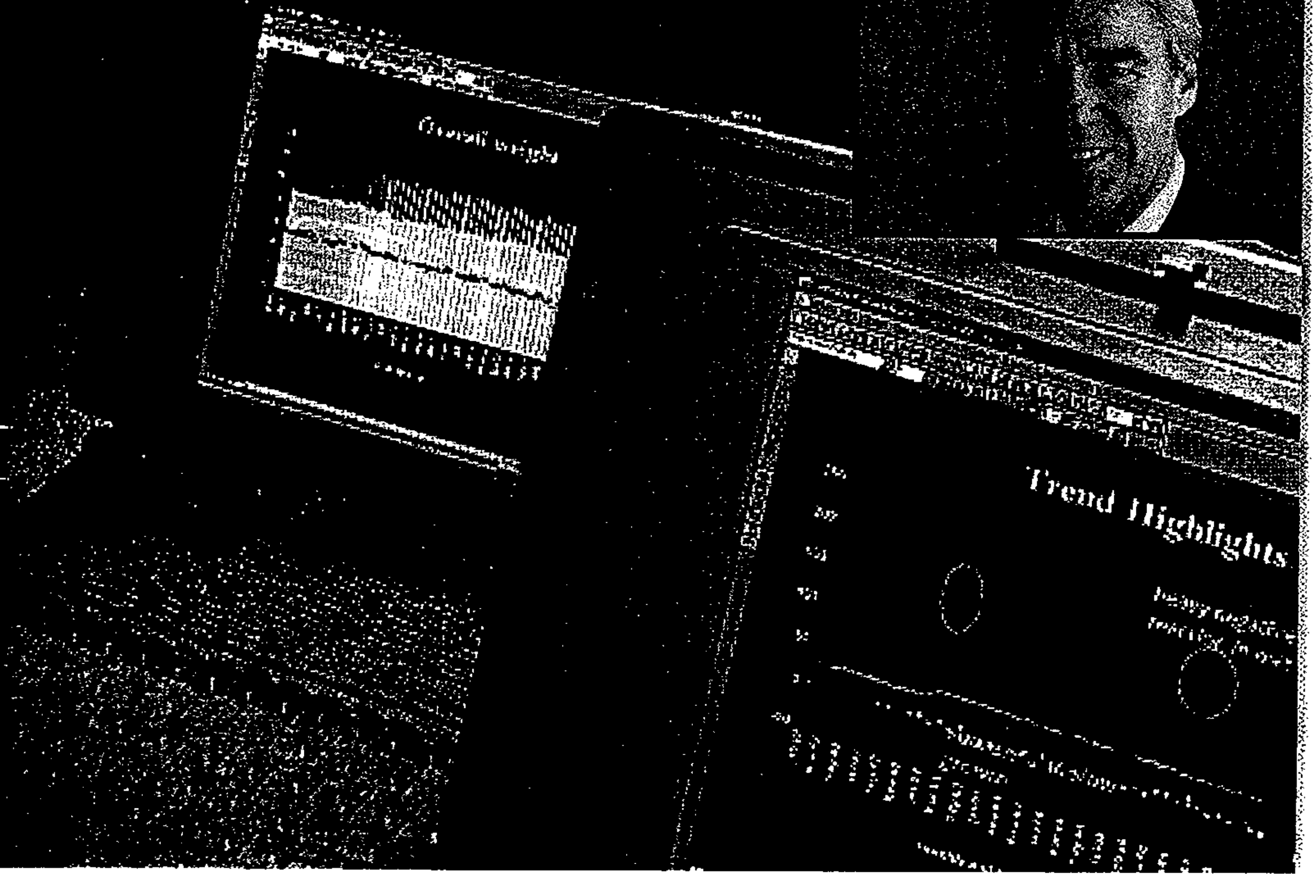
Cash generation remains a key focus for the Group. Net cash inflow from operating activities was £42.7 million, a 22% increase over 1995 and compares favourably with an operating profit of £42.2 million. The Group reduced its net

Evaluation and analysis

Quantifying advertising effectiveness is the ultimate weapon in planning media communications. Our program of evaluation CARAT TRACK links sales and return on investment with marketing variables such as price, promotion and advertising measures. We are investing in building our knowledge bank to simulate and optimise future marketing plans for clients in the US and Europe.

Pictured right: Pat Doble, Group Marketing Director and Stig Bøgh Karlsen, Chief Operating Officer, Carat North America.





Innovative media management

We are generating innovative uses of media to increase the impact of clients' communication in a cluttered marketplace. Event sponsorship, sponsored programming, websites and interactive kiosks all increase exposure. We are building tools to understand their influence on consumers. Direct marketing and advertising response gives data which increases the accountability of clients' marketing investment and generates improved planning.

Pictured left: Didier le Vert, General Manager, Carat Sponsorship, France and Angelo Baiocchi, General Manager of Carat Communication, Italy.

Chief Executive's review

indebtedness by £10.3 million during 1996 to £7.6 million at the year end. In 1996 and preceding years significant amounts of cash were spent on both restructuring and the acquisition of minority interests. The restructuring process is now complete and in future free cash flow will be substantially devoted to Group development. We will continue to seek appropriate growth opportunities selected on the basis of maximising shareholder returns.

Overall the Group achieved an 18% improvement in profit before tax in 1996, from £33.6 million to £39.6 million. Fully diluted earnings per share also improved 17% from 2.6p to 3.0p.

Business development

We continue to operate in an environment that is favourable to the Group's long-term development. The fragmentation and increasing complexity of media communications, the accelerating introduction of new technologies and the move to more closely integrated marketing on a global scale are increasing clients' focus on media communications and the challenges of reaching their consumers effectively.

In last year's Annual Report, we outlined the key strategic priorities which would drive future Group development. Management throughout the organisation is focused towards these. I am pleased, therefore, that 1996 saw significant progress towards achievement of these strategic goals.

We have further upgraded and expanded our range of services within the media communications arena. Increased priority is being devoted to accurate consumer targeting and innovative use of different media as primary ways to increase the effectiveness of clients' marketing budgets. We are also developing sophisticated research and data management tools. Our access to experience across media, clients and countries will generate understanding of macro trends as well as specific client or brand drivers. We are building these models into a research and information infrastructure to benefit our clients.

A number of new proprietary research and measurement tools have been introduced in 1996. For example, across Europe we are rolling out CARAT TRACK, a marketing and media effectiveness model which enables clients to evaluate the business impact of key elements of their overall marketing programme. Client reaction to this tool has been positive. We have also established a new database marketing company in France, Consodata, which allows clients to target consumers highly effectively through direct marketing. Results in 1996 were very promising and we are looking to expand this product into other markets. A new business, Carat Vision, has also been set up in a number of major markets focused on new media and two-way communication applications. These and other initiatives are targeted at providing more value-added upstream services to our clients,

Chief Executive's review

utilising advanced research, proprietary information and Group expertise.

The Group has also made real progress towards establishing Carat as a global operation. The USA remains the key priority and opportunity. We acquired MBS, an independent media planning and buying specialist in New York, in October 1996. More recently, in March 1997, we also announced the acquisition of ICG, the leading independent media planning/buying specialist in the western United States. These two companies give us wide geographic coverage, a solid client portfolio, and a sizeable billings base of around $650 million from which to build. Also in March 1997 we acquired MMA, a leading edge marketing and media analysis consultancy based in Connecticut. MMA fits very well with Carat's strategic goal to provide more value-added upstream services around clients' integrated media communication programmes. Together, these acquisitions represent an important step forward in our goal to build over time a substantial US business. They will be earnings enhancing in 1997, and we anticipate the US making a positive profit contribution to the Group in 1997.

During 1996 we established a Carat business and regional head office in Hong Kong and are now servicing accounts including Volkswagen and The Walt Disney Company in Asia. We anticipate developing a Carat network throughout the region over the next two to three years. In India, we have recently set up a Carat operation through an Aegis controlled joint venture with the Birla/Ruparel partnership. We have largely completed the rollout of Carat throughout Eastern Europe with operations now set up in Russia, Slovakia and the Baltic States. All of these businesses are performing in line with expectations.

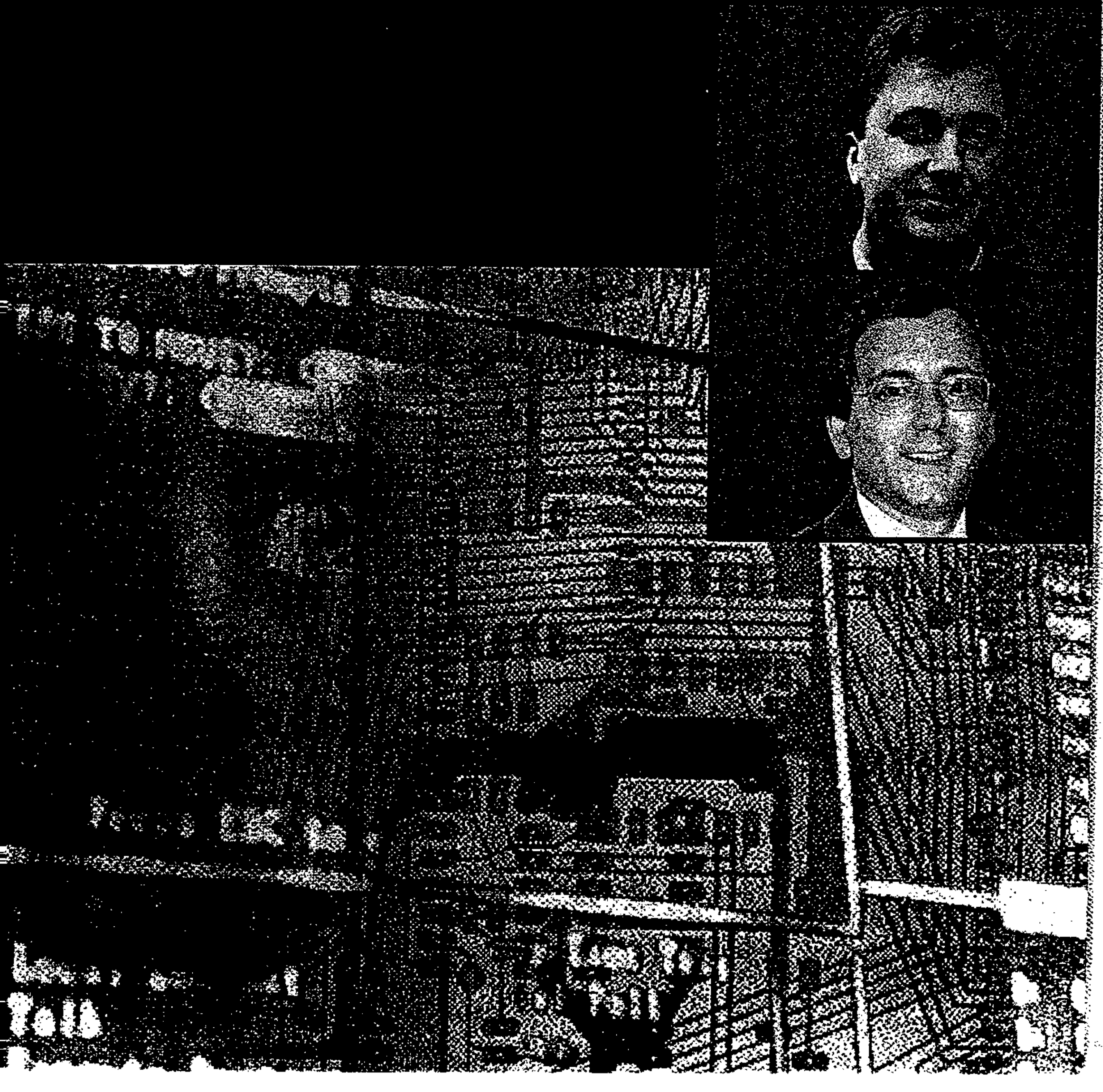
1996 was another impressive year for international client development. As reported earlier, net new business totalled £278 million. In addition to the Group-wide gains of Philips in early 1996 and Tambrands late in the year, other notable wins included Bouygues Telecom and Rover (France), Coca-Cola (Germany) and Channel 5 and Le Shuttle (UK). Early 1997 has seen continued progress with major new assignments from Kraft Jacob Suchard in France, Telefonica in Spain and Alberto Culver in the USA.

International clients now account for almost 50% of Group turnover. Five years ago, they accounted for less than 10%, a reflection of our network's development. We have strengthened our Carat International division accordingly. Its role is to develop new and existing multi-national clients, handle increasing needs for strategic development and consultancy and co-ordinate pan-regional buying and planning requirements. We now have offices in London, Paris, Wiesbaden and Hong Kong, each with

Consumer targeting

We are improving our media targeting for brands with sophisticated data management tools to analyse macro trends in consumers' media habits and product consumption across markets and product categories. Merging this with detailed brand and consumer insights identifies clients' most valuable customers.

Pictured right: Phil Gullen, Managing Director of Carat Insight, UK and René Saal, Managing Director of Carat Expert, France.



Review of local operations

Kai Hiemstra
Chairman
HMS Carat Group, Germany

Bruno Kemoun, Eryck Rebbouh
Joint Chairmen
Carat France

Germany and Eastern Europe

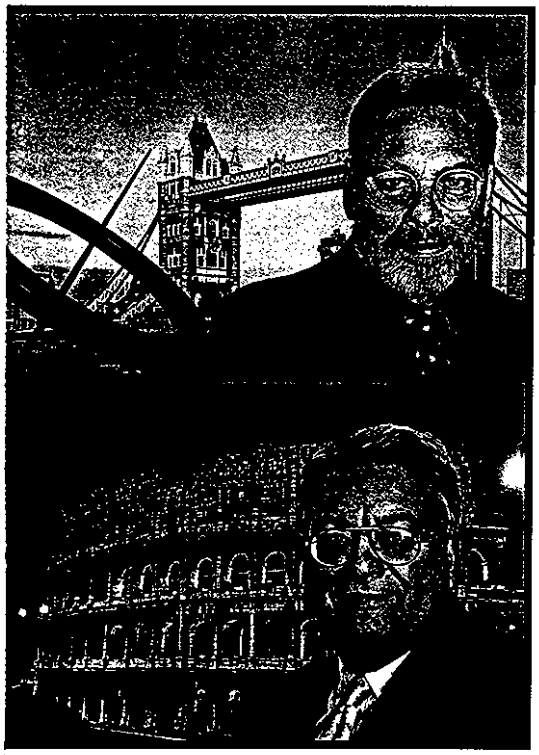
HMS Carat maintained its leadership position in the German market in 1996. However, the closure of CMRZ, a low margin business, combined with a decelerating market, resulted in turnover down 15%. Significant recovery is expected in 1997 with The Coca-Cola Company amongst early new business wins. Across Eastern Europe the business is building strongly with turnover up 55% year on year. Poland and the Czech Republic have been the most significant contributors. Russia is performing well with clients including Philips, Mobil, Storck and Kellogg's.

France

Carat France had a very successful year in 1996 with turnover increasing 13% against market growth of only 3%. Market share is now over 19%. An excellent new business performance included wins on Bouygues Telecom, Philips, TPS and Disney Channel. Through Carat Expert a number of new products were further developed. A number of innovative communication opportunities for clients were accessed with business in sponsorship, programming and new media. Carat France is now also involved in direct marketing and database management through Consodata.

Ray Kelly
Chairman and Chief Executive
Carat UK

Giuseppe Conti
Chief Executive Officer
Carat Italia



UK

Carat UK reinforced its position as the number one media specialist in the UK increasing turnover by 16%, well ahead of market growth of 6%. Business volume has trebled since 1991 with substantial new business gains in 1996 including Philips, Channel 5, Le Shuttle and Tambrands. Growth came from each of the UK operating units. The Group continues to strengthen its services across an unequalled range of communication skills having launched Carat Interactive in 1996 and recently reorganising to enable Carat UK companies to place more emphasis on upstream services. The restructuring and rebranding of Carat Research to become Carat Insight will help to facilitate Carat UK's increasing strategic input to clients' communication programmes.

Italy

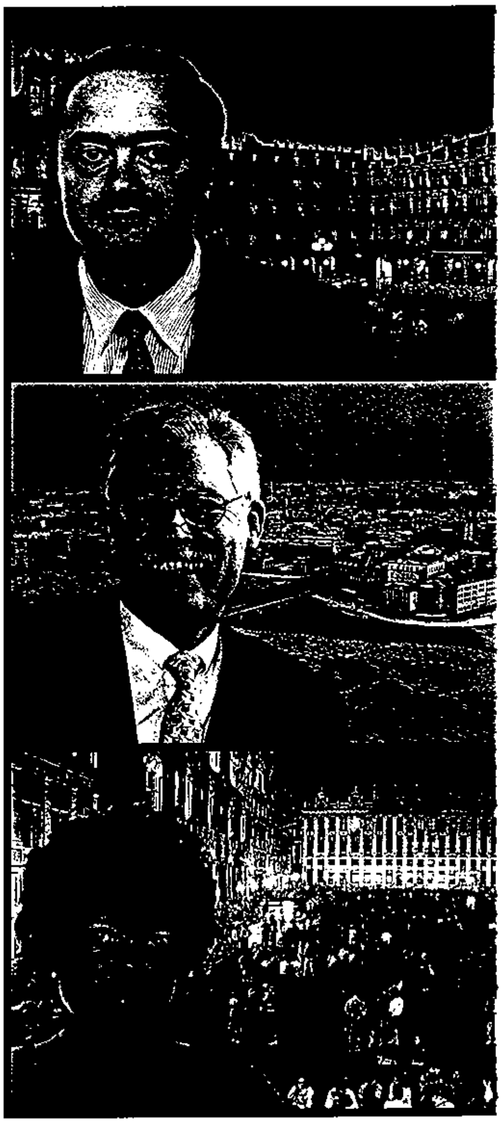
Carat Italia significantly strengthened its market position in 1996 thanks to substantial new business activities. Turnover increased by 27% in a market that grew by 7%. Amongst the new clients were SmithKline Beecham, Bolton Group and Telepiù. All of Carat Italia's existing clients were retained. Strategic consultancy services are building management fees, with new media and programming activities diversifying the communication options offered.

Review of local operations

Jordi Calvet
Chief Executive Officer
Carat España

Tage Krogh
Chief Executive
Carat Scandinavia

Anne Bataille
Chief Executive
Carat Crystal, Belgium



Spain and Portugal

Carat España maintained its joint leadership position in 1996 despite difficult market conditions. Turnover was slightly down on the preceding year as a result of the loss of a low margin agency client, Mass Media. However, the financial results continue to be strong. There has recently been a number of significant new business gains including Sara Lee and the National Lottery. Carat Expert has been established to focus resources on strategic media planning and emerging media opportunities.

Scandinavia

1996 saw Denmark and Finland perform well, increasing turnover by 9% in difficult markets and continuing to build substantial market share. Carat Norway maintained its clear leadership position. In Sweden, however, trading volumes were down in 1996. Existing clients reduced spending and Telia, a major Swedish client, was lost. The Swedish business is making substantial changes to its organisation and services to address the difficult market conditions and to provide a firm base for future growth. Joint ventures in the Baltic States are now established with a client list including The Coca-Cola Company, Kellogg's, Stimorol and Mölnlycke.

Belgium

Despite difficult economic conditions Belgium again had a successful year. Carat Crystal maintained its market leadership with a 16% market share and there were a number of important new business wins including La Loterie Nationale. The outdoor advertising market in Belgium is very important and Carat Crystal is leading the Group in developing sophisticated outdoor buying systems. In depth understanding of the media market has been built into leading edge management systems.

Aege Steensma
Chief Executive Officer
Carat Nederland

Anna Hatzissava
Managing Director
Carat Hellas, Greece

Eric Drancourt
Chief Executive
Carat International

Netherlands

Carat Nederland had a good year in 1996 with turnover increasing by 9%. The Dutch market generally showed growth of 7%. There were a number of substantial new business gains including Philips, Stimorol and Mecado. Carat Nederland is making substantial progress and the management team is focused on further developing proprietorial research and media consultancy services as an opportunity to expand client services.

Greece

1996 was the first year of the new media law in Greece and this significantly changed the previous trading relationships between advertisers, the media and intermediaries. As a result, 1996 saw much change and the reversal of previously strong growth trends. Carat Hellas has been restructured to provide new services to clients independent of media turnover. Many direct clients have been retained and new business wins include Philips, Reckitt & Colman and Bausch & Lomb. Further progress is anticipated for 1997.

Carat International

Overall, the Carat Group continues to build its international business with almost 50% of turnover now coming from multinational clients. These clients increasingly require a central point for media strategy and regional management and co-ordination. Carat International operates as a separate business unit providing a global service to clients such as The Walt Disney Company, Chanel, Philips, Reckitt & Colman and The Volkswagen Group. The teams of client directors and planners are located close to clients' centres of operation, currently, London, Paris, Wiesbaden and Hong Kong. Carat International in London is the Group's centre of excellence for pan-regional media planning and buying.

Financial review

The 1996 results demonstrate a continued improvement in earnings, operational efficiency and cash generation, elements that are all fundamental to fulfilling the Group's commercial and strategic objectives. The Group has successfully completed its recovery and is now well positioned with a sound financial base. Positive cash flow has been maintained after satisfying investment requirements, and dividend payments have been resumed.

Trading overview

During 1996 the Group's billings (defined as the annualised value of media purchased on behalf of clients) increased by 7%. Market share strengthened and we maintained our position as market leaders in nearly all the principal European advertising markets.

Billings and turnover

Whilst billings growth was satisfactory, turnover remained relatively stable, increasing by just 2% over 1995. Trading conditions in Germany and Sweden were impacted by the general economic environment with a net reduction in local turnover. In Germany, the Group also closed a trading unit at the beginning of 1996 which, although significant in terms of turnover, returned inadequate margins. This action has strengthened the overall performance of our German businesses. Volume declines in Germany and Sweden were counter-balanced by significant growth in the UK, France, Norway, Italy and Eastern Europe.

Gross margin

The Group continues to meet its objective of sustaining and strengthening gross margin by identifying new sources of income and improving our core product and services. This is clearly demonstrated by the significant increase in gross margin from 4.9% in 1995 to 5.2% in 1996. This improvement contributed £12 million to the overall result and more than offset the effect of relatively stable turnover. Much focus continues to be placed on enhancing our gross margin and we are confident that improved income levels can be maintained in the future.

Operating costs

Although costs have increased by nearly 7% over 1995 the Group's overall operating effectiveness has continued to improve and this is demonstrated by the increase in operating margins from 22% to 24%. Management is focused on identifying appropriate opportunities for improving operating efficiency. This quest will continue to be of prime importance and although we compare well against other similar companies we will strive to make further progress.

Approximately two-thirds of our costs are personnel related. These have increased by 11.7% in 1996 primarily due to the need to invest in key areas of the business. This is necessary to support the Group's overall strategy of up-grading its product and service as well as

Financial highlights

		Year ended 31 December 1996	Year ended 31 December 1995	Increase/ (decrease)
Trading results	**Turnover**	**£3,453m**	£3,401m	2%
	Gross income	**£179.5m**	£165.2m	9%
	% Gross income to turnover	5.2%	4.9%	
	Operating profit	**£42.2m**	£36.7m	15%
	% Operating profit to gross income	24%	22%	
	Profit before tax	**£39.6m**	£33.6m	18%
	Effective tax rate	27%	25%	
	Profit for the financial year	**£28.0m**	£23.5m	19%
Shareholder returns	**Earnings per share**			
	– basic	3.3p	2.8p	17%
	– fully diluted	3.0p	2.6p	17%
	Ordinary dividend per share			
	– interim	0.25p	—	—
	– final	0.35p	—	—
	Total	0.60p	—	—
Cash flow	Operating cash flow	**£42.7m**	£35.0m	22%
	Reduction in net debt	**£10.3m**	£12.1m	
	Net indebtedness at year end	**£7.6m**	£17.9m	(58%)

expanding into new markets such as the Far East, India, Turkey, Russia, Slovakia and USA.

Excluding the impact of acquiring MBS in New York, average staff numbers increased by 5% in 1996. The total staff complement at 31 December 1996 was 2,021. Encouragingly, operating expenses as a percentage of gross income continue to reduce, from 80% in 1994 to 76% in 1996. Despite relatively stable turnover, a combination of improved gross margins and operating efficiency have contributed to a 15% increase in operating profits year on year.

Foreign exchange

The 1996 results were marginally affected by adverse foreign exchange movements due to the strength of sterling. The adverse impact of foreign exchange on operating profits in 1996 was £0.3 million.

Borrowings, interest and cash flow

I am pleased to confirm that during 1996 the Group established a new syndicated loan facility for £170 million taking advantage of lower interest margins. As a result, the remaining deferred refinancing costs of £1.4 million associated with the 1993 refinancing have been written off in accordance with FRS 4. Excluding this charge the increase in pre-tax profits was 22%. A particular feature of the new credit facilities was to ensure that overseas subsidiaries absorbed an appropriate share of Group debt. This acts as a natural hedge against foreign currency assets and thus reduces balance sheet exposure to exchange rate fluctuations.

Excluding the write-off of the deferred refinancing costs, as discussed above, the net interest charge was £1.2 million as compared to £3.1 million in 1995.

Board of directors

Frank S Law CBE
non-Executive Chairman

Frank S Law CBE was appointed to the Board on 1 November 1987. He is also Chairman of Siemens plc, Chairman of the Varta Group of companies in the UK, President of Rubis & Co., a French investment company, and a Director of Celab Ltd. He is a Governor of the Royal Shakespeare Company and a trustee of "Action on Addiction".

Crispin Davis
Chief Executive Officer

Crispin Davis was appointed to the Board on 1 September 1994 and became Chief Executive on 15 October 1994. In 1992 and 1993 he was Group Managing Director of United Distillers and a member of the Board of Guinness plc. He previously worked as Vice President of the Foods Division of Procter & Gamble in the USA.

Colin Day
Group Finance Director

Colin Day was appointed to the Board on 13 February 1995. Prior to joining he was Finance Director of ABB Instrumentation Group. He previously held senior financial positions in De La Rue plc and British Gas plc. He is also a non-executive director of Vero plc.

Kai Hiemstra
Chairman HMS Carat Group, Germany

Kai Hiemstra was appointed to the Board on 27 July 1994. In April 1972 he founded HMS Media Service GmbH which was subsequently acquired by Aegis. Since 1994 he has been Chairman of HMS Carat Group, Germany and Eastern Europe.

Charles Hochman
non-Executive

Charles Hochman was appointed to the Board on 30 May 1990. He was Chief Executive Officer of Coca-Cola, Japan before joining Carat in April 1981. He was appointed Chief Executive Officer of Aegis and Carat Group in 1992. He retired as Chief Executive Officer of the Group on 15 October 1994. He is "Chevalier de la Legion d'Honneur".

Roy Kelly
Chairman and Chief Executive, Carat UK

Roy Kelly was appointed to the Board on 16 September 1992. After thirteen years working in full service advertising agencies he joined TMD in 1979, becoming Managing Director in 1989. In 1990 he was appointed Chief Executive of Carat UK Ltd (formerly TMD Advertising (Holdings) PLC).

Bruno Kemoun and Eryck Rebbouh
Joint Chairmen, Carat France

Bruno Kemoun and Eryck Rebbouh were appointed to the Board on 16 September 1992. They founded 2010 Medias in December 1985 in association with Carat France and they sold it in 1991 to become shareholders in Aegis. They were founders and implementors of Carat Group's centres of specialised expertise in France: Carat TV, Carat Presse, Carat Radio, Carat Poster, Carat Cinema and Carat Sponsorship. They implemented the French restructuring following the "Loi Sapin" in 1993. They were appointed Joint Chairmen of Carat France in 1995.

Sir Kit McMahon
non-Executive

Sir Kit McMahon was appointed to the Board on 26 May 1993. He is also a director of Taylor Woodrow Plc, FI Group plc and the Royal Opera House. He is a former Deputy Governor of the Bank of England and was Chairman of Midland Bank plc from 1987 to 1991.

Dominic Shorthouse
non-Executive

Dominic Shorthouse was appointed to the Board on 16 September 1992. He is a managing director of E M Warburg, Pincus & Co International Ltd. He is also a director of Argent Group plc, Channel 5 Broadcasting Limited, Esprit Telecom Group plc, WEW Group plc and a number of other European companies.

Sir Peter Thompson
non-Executive

Sir Peter Thompson was appointed to the Board on 26 May 1993. He is, inter alia, Chairman of FI Group plc, and Child Base Ltd. He is a non-executive director of Smiths Industries plc and Brewin Dolphin Holdings plc, President of ProShare Ltd and Chairman of the Milton Keynes Theatre & Gallery Company.

Philippe Villin
non-Executive

Philippe Villin was appointed to the Board on 25 October 1995. He is Chairman and founder of Ph. Villin Conseil, senior adviser for Europe of James D. Wolfensohn Inc. and was formerly Publisher of Le Figaro for ten years.

John Vogelstein
non-Executive Deputy Chairman

John Vogelstein was appointed to the Board on 24 July 1991. He is Vice Chairman and President of E M Warburg, Pincus & Co., LLC.

Directors and advisers

Directors of Aegis Group plc

Frank S Law CBE, *non-Executive Chairman*
John Vogelstein, *non-Executive Deputy Chairman*
Crispin Davis, *Chief Executive Officer*
Colin Day, *Group Finance Director*
Kai Hiemstra
Charles Hochman, *non-Executive*
Ray Kelly
Bruno Kemoun
Sir Kit McMahon, *non-Executive*
Eryck Rebbouh
Dominic Shorthouse, *non-Executive*
Sir Peter Thompson, *non-Executive*
Philippe Villin, *non-Executive*

Members of Carat Executive

Crispin Davis
Colin Day
Kai Hiemstra
Ray Kelly
Bruno Kemoun
Eryck Rebbouh

Executive directors of Aegis Group plc

Jordi Calvet, *Chief Executive Officer, Carat España*
Giuseppe Conti, *Chief Executive Officer, Carat Italia*
Pat Doble, *Group Marketing Director*
Eric Drancourt, *Chief Executive, Carat International*
Stig Bøgh Karlsen, *Chief Operating Officer, Carat North America*
Tage Krogh, *Chief Executive, Carat Scandinavia*
William Skerrett, *Group Human Resources Director*
Howard Wang, *Chief Executive Officer, Carat Asia Pacific*
Eléonore Sauerwein, *Group Legal Director and Secretary to the Carat Executive*

Secretary

Elizabeth Richardson

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10 Queen Street Place
London EC4R 1BL

Financial Advisers

Deutsche Morgan Grenfell & Co Limited
23 Great Winchester Street
London EC2P 2AX

Registrars

The Royal Bank of Scotland plc
P O Box 435, Owen House
8 Bankhead Crossway North
Edinburgh EH11 4BR

Solicitors

Slaughter and May
35 Basinghall Street
London EC2V 5DB

Stockbrokers

Hoare Govett Corporate Finance Limited
4 Broadgate
London EC2M 7LE

Report of the directors

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 1996.

Results and dividends

The profit and loss account is set out on page 38 and shows a retained profit for the financial year of £22.2 million (1995: £23.0 million) all of which is transferred to reserves.

An interim dividend of 0.25p per share was paid on 11 October 1996 as a Foreign Income Dividend ("FID") to ordinary and preference shareholders. The directors recommend a final dividend for the year of 0.35p per share which, if approved at the Annual General Meeting, will be paid as a FID on 3 July 1997 to ordinary and preference shareholders registered at 13 June 1997. The total dividend for the year will then amount to 0.6p per share (1995: nil). Further details on dividends paid to preference shareholders are given in note 7 to the accounts.

Principal activity

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

Review of business and future developments

A review of the business and likely future developments of the Group is given in the Chairman's statement on pages 4 and 5.

Research and development

The Group is involved in media research and development in order to offer clients the most advanced media planning and buying methods. During the year the Group spent £14.8 million (1995: £12.0 million) on research and development.

Donations

The Company made charitable donations of £6,977 (1995: £5,430) during the year in the United Kingdom. There were no political donations during the year in the United Kingdom (1995: £nil).

Employment policies

It is the policy of the Group that there should be no unfair discrimination in considering applications for employment, including those from disabled persons. Should any employee become disabled every practical effort is made to provide continued employment.

The directors are committed to maintain and develop communication and consultation procedures with employees who in turn are encouraged to become aware of, and involve themselves in, the performance of their own company and of the Group as a whole. Consultation and involvement policies vary from country to country according to local customs, legal considerations and the size of the business.

Supplier payment policy

The Group's policy concerning the payment of its suppliers is as follows:

- to agree the terms of payment with suppliers in advance
- to ensure that suppliers are made aware of the terms of payment
- to abide by the terms of payment

Directors and directors' interests

The directors in office at the end of the financial year and their interests in the share capital of the Company are given within the Remuneration Committee's report on page 32.

Charles Hochman, Frank Law, John Vogelstein and Ray Kelly retire from the Board by rotation in accordance with the Articles of Association and, being eligible, will be proposed for re-election. Charles Hochman, John Vogelstein and Frank Law do not have service contracts with the Company. Ray Kelly has a service contract with Carat UK Ltd which is terminable upon 12 months' notice.

Substantial shareholdings

In accordance with the requirements of the London Stock Exchange as at 28 April 1997, the following interests in the issued ordinary shares of 5p each of Aegis Group plc are noted:

Affiliates of Warburg, Pincus & Co	31.9%
SFEC II (Note)	4.6%
Gilbert Gross	4.4%
FMR Corp	3.2%

Note: SFEC II is a company controlled by Florence Gross, the widow of Francis Gross (the late brother of Gilbert Gross), one of the original vendors of the business which is now Carat France SA.

In addition, funds under the management of Electra Fleming Limited hold 99% of the issued variable rate convertible cumulative redeemable preference shares 2003 of 5p each and Saracen Value Trust plc holds 6.6% of the warrants to subscribe for ordinary shares.

Report of the directors

Share capital

Details of the movements in authorised and issued share capital during the year are given in note 16 to the financial statements.

At the Annual General Meeting resolutions will be proposed to authorise the directors to allot securities in the Company. Resolution 8 set out in the Notice of Annual General Meeting on pages 60 and 61 provides the directors with authority to allot securities in the Company up to an aggregate nominal value of £13,845,000. If passed, the resolution will enable the directors to allot a maximum of 276,900,000 ordinary shares which represent 33% of the issued ordinary share capital as at 23 April 1997, one month prior to the date of the notice of the Annual General Meeting. Save for shares to be issued to satisfy existing legal obligations, the directors have no present intention of exercising the authority which would be conferred by resolution 8. Resolution 9 is a special resolution disapplying pre-emption rights and granting authority to the directors, without the need for further specific shareholder approval, to make allotments of equity securities for cash by way of (a) rights issues and (b) other issues up to an aggregate nominal value of £2,076,000. The authority conferred by resolution 9 is limited as regards issues of shares other than by way of rights issues to 41,520,000 ordinary shares amounting to approximately 5% of the issued ordinary share capital of the Company as at 23 April 1997. In relation to the exercise of this authority the Company will have regard to the guidelines published by the investment committees of both the Association of British Insurers ("ABI") and the National Association of Pension Funds. The authorities sought by these resolutions are to replace the existing powers of the directors which expire at the conclusion of the Annual General Meeting.

Authority for the Company to purchase its own shares

The existing authority for the Company to purchase its own shares expires at the conclusion of the Annual General Meeting. No purchases have been made to the date of this report and there are no outstanding contracts to purchase shares as of this date. It is proposed to seek a renewal of this authority to purchase up to 41,541,500 ordinary shares (approximately 5% of the present issued ordinary share capital) at the forthcoming Annual General Meeting. The terms of the authority are set out in resolution 10.

The maximum price at which any share may be purchased is the price equal to 5% above the average of the middle market quotations of such share as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the date of such purchase, exclusive of expenses, and the minimum price at which any share may be purchased is the par value of such share. Although the directors have no present intention of using the authority, if granted the directors will exercise the authority only if in their judgement it is in the best interests of shareholders generally and where exercise should result in an improvement in earnings per share for the remaining shareholders.

Auditors

A resolution to re-appoint Price Waterhouse as auditors and to authorise the directors to fix their remuneration will be proposed at the Annual General Meeting.

Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of that financial year and of the profit or loss of the Group for that financial year. The directors consider that in preparing the financial statements on pages 38 to 59, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and that all accounting standards which they consider to be applicable have been followed, subject to any explanations disclosed in the notes to the financial statements.

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

Report of the Remuneration Committee

The directors believe that the constitution and operation of the Remuneration Committee complies with the principles within Section A of the Code of Best Practice published by the Study Group on Directors' Remuneration (the "Code") on 17 July 1995, as amended by the Listing Rules of the London Stock Exchange. Full consideration has been given to the best practice provisions set out in Section B, as annexed to the Listing Rules.

Policy on remuneration of Executive directors

Remuneration packages which are offered by the Company to its Executive directors are designed to be competitive and attract, retain and motivate Executive directors of the right calibre. The Remuneration Committee determines remuneration packages with regard to the prevailing pay and benefits conditions across its European markets. The Remuneration Committee does not believe there are any companies which are directly comparable with Aegis Group plc. However, in determining remuneration packages, the Committee has had regard to packages provided by companies of a similar size and within the same industry and markets.

The main elements of the remuneration packages offered are:

- Basic salary
  Basic salary is determined by the Remuneration Committee by taking into account the performance of the individual against his set objectives and the performance of the Group and local company as a whole.

- Annual bonus
  Executive directors are paid bonuses under the Group Bonus Scheme upon achievement of individual objectives and financial targets linked to Group and local company performance. This may result in the payment of bonuses of up to 50% of basic salary. Kai Hiemstra's bonus is a contractual obligation as laid down in the agreement entered into in 1993 for the acquisition of the remaining 50% of HMS Carat.

Report of the directors

- Share options

  Grants of options are made by the Remuneration Committee under the existing Executive Share Option Schemes which were introduced in 1995. Grants are made to executives within the Group Bonus Scheme following recommendation by the Chief Executive. The value of options granted relates directly to the employee's basic salary and grade. Grant and exercise of options are subject to the achievement of specific conditions. These conditions are:

  - EPS growth to exceed a European composite retail price index plus 5% per annum. The European composite index will be determined by weighting indices calculated for selective countries to approximate the source of Company turnover. The country indices will be calculated from official retail inflation data, adjusted for exchange rate fluctuations against sterling; and
  - total shareholder return in capital growth plus dividends equivalent to that which would place Aegis in the top third of companies in the "FTSE 100".

  It is now proposed that certain amendments be made to the schemes, details of which are given on pages 33 and 34.

Pensions

UK Executive directors participate in defined contribution Group pension schemes. Pensionable salary is limited to basic salary excluding all bonuses and other benefits. As UK Plan benefits are subject to Inland Revenue limits, where these are exceeded, contributions are made to the Aegis Group plc Unapproved Retirement Benefits Scheme to increase pension benefits to the level which would have applied. Non UK Executive directors have arrangements in line with market conditions and statutory obligations operating in their own countries.

Notice periods

Those Executive directors based in the UK have notice periods ranging from 12 to 24 months. There are no current plans to reduce these periods which are considered a necessary part of the remuneration package to attract the right calibre of Executive director and which are felt to be in line with current market practice. The Executive directors based in France have contracts with six months' notice. However, in the event that Carat France terminates the agreements other than by reason of misconduct, a payment equivalent to 18 months' remuneration must be made. Kai Hiemstra has a service contract which expires on 31 December 1998.

Non-Executive directors' fees

Non-Executive directors who represent major shareholders receive no fees from the Company for their services as non-Executive directors. Fees for other non-Executive directors are determined by the Board and are disclosed below.

The tables which follow provide details of directors' remuneration, shareholdings and share options.

Directors' remuneration

		Basic salary £'000	Fees £'000	Benefits £'000	Annual Bonus £'000	Other £'000	**Total 1996 £'000**	Total 1995 £'000	**Pensions 1996 £'000**	Pensions 1995 £'000
Bruce Crawford	(a)	—	—	—	—	—	**—**	—	**—**	—
Crispin Davis	(b)	432	—	17	184	—	**633**	615	**204**	184
Colin Day		190	—	10	75		**275**	232	**35**	23
Kai Hiemstra	(c)	318	—	18	661	—	**997**	917	**—**	—
Charles Hochman		—	25	—	—	—	**25**	311	**—**	3
Ray Kelly	(d)	165	—	17	58	—	**240**	173	**66**	148
Bruno Kemoun	(e)	266	—	3	—	102	**371**	554	**3**	3
Frank S Law CBE		—	100	14	—	—	**114**	117	**—**	—
Sir Kit McMahon		—	25	—	—	—	**25**	25	**—**	—
Eryck Rebbouh	(e)	266	—	3	—	102	**371**	556	**3**	3
Dominic Shorthouse		—	—	—	—	—	**—**	—	**—**	—
Sir Peter Thompson		—	25	—	—	—	**25**	25	**—**	—
Philippe Villin	(f)	—	—	—	—	94	**94**	11	**—**	—
John Vogelstein		—	—	—	—	—	**—**	—	**—**	—
Total 1996		1,637	175	82	978	298	3,170	3,536	311	364

Notes:

(a) Bruce Crawford resigned on 10 April 1996.

(b) A long term bonus, subject to performance criteria including profitability set by the Remuneration Committee, may be paid to Crispin Davis upon publication of the annual report for the year ending 31 December 1997. This amount will not exceed £500,000 and is subject to Crispin Davis being in the employment of the Company at 31 December 1997. The payment will be made half in cash and half by the allotment of shares in the Company at the then prevailing market price.

(c) The bonus paid forms part of the Company's contractual obligations to Kai Hiemstra under the agreement to purchase the remaining 50% of HMS Carat entered into on 19 October 1993.

(d) Ray Kelly elected to receive part of his 1996 salary as additional pension contributions. This is consistent with practice in previous years. In past years he has also elected to receive part of his bonus as additional pension contributions. His 1995 pension entitlement has been restated to reflect pension contributions made in respect of 1995 rather than those actually paid in 1995. This brings disclosure in line with the basis adopted for all other directors.

(e) Bruno Kemoun and Eryck Rebbouh are two of the shareholders of Société Internationale de Conseil pour la Communication ("SICC") which provides international management services to the Group. Fees are paid to SICC at a fixed amount together with a performance related element. The salaries received by Bruno Kemoun and Eryck Rebbouh from SICC are shown in "Basic salary" and their proportion of the profit before tax of SICC is shown as "Other" emoluments. The total emoluments shown for 1995 in respect of Eryck Rebbouh and Bruno Kemoun included an amount of £191,000 in respect of bonuses accrued for 1993 and 1994. The 1995 total also included an amount of £106,000 corresponding to their proportion of the 1995 SICC profits before tax.

(f) Philippe Villin has a consultancy agreement with Carat France SA which was entered into on 1 June 1995. Fees of FFr. 500,000 were paid in 1996. In addition, he received a bonus of FFr. 250,000 in early 1997 for exceptional services provided to Carat France during 1996.

Report of the directors

Benefits principally include the provision of company cars and private medical insurance.

Figures shown for pensions are the contributions paid by the Company to both approved and unapproved retirement benefits schemes.

Other than as disclosed in the above paragraphs, none of the directors was materially or beneficially interested in any contract of significance with the Company or any of its subsidiary undertakings during or at the end of the financial year ended 31 December 1996.

Directors' interests

The directors of the Company in office at the end of the year, and their interests in the share capital of the Company as at 28 April 1997, all of which are beneficial to the directors and their immediate families, which have been notified to the Company pursuant to Sections 324 or 328 of the Companies Act 1985 (the "Act") or are required to be entered into the Register required to be kept under Section 325 of the Act, and of persons connected (within the meaning of Section 346 of the Act) with the directors, were as follows:

	Ordinary shares of 5p			Variable rate preference shares of 5p		
	28 April 1997	31 December 1996	31 December 1995	28 April 1997	31 December 1996	31 December 1995
Crispin Davis	100,300	100,300	100,300	—	—	—
Colin Day (Note)	75,879	75,879	50,000	—	—	—
Kai Hiemstra	—	—	41,212	—	—	—
Charles Hochman	4,361,567	4,361,567	4,361,567	10,968	10,968	10,968
Ray Kelly	287,188	287,188	287,188	—	—	—
Bruno Kemoun	8,786,432	8,786,432	8,786,432	—	—	—
Frank S Law CBE	1,026,752	1,026,752	1,016,752	3,198	3,198	3,198
Sir Kit McMahon	136,860	136,860	136,860	9,390	9,390	9,390
Eryck Rebbouh	8,786,432	8,786,432	8,786,432	—	—	—
Dominic Shorthouse	—	—	—	—	—	—
Sir Peter Thompson	193,606	193,606	156,806	4,069	4,069	4,069
Philippe Villin	—	—	—	—	—	—
John Vogelstein	—	—	—	—	—	—

Note: As at 28 April 1997, Colin Day also held 20,000 warrants to subscribe for ordinary shares.

The middle market price of the ordinary shares of 5p each as derived from the Stock Exchange Daily Official List on 31 December 1996 was 61p and the range during the year was 38p to 65.75p. The share price on 28 April 1997 was 59.75p. The warrant price on 28 April 1997 was 29.25p. The variable rate convertible cumulative redeemable preference shares 2003 of 5p are not listed.

Ordinary shares of 5p each for which directors have beneficial options to subscribe are as follows:

Director	Options held at start of year	Granted during year	Expired/lapsed during year	Options held at end of year	Exercise price	Date from which exercisable	Expiry date
Crispin Davis (Note)	9,411,764	—	—	9,411,764	25.5p	26.10.97	25.10.2004
Colin Day	1,132,075	—	—	1,132,075	26.5p	21.6.98	20.6.2005
	—	365,385	—	365,385	52p	2.7.2001	1.7.2006
Kai Hiemstra	1,014,083	—	—	1,014,083	26.5p	21.6.98	20.6.2005
	—	567,973	—	567,973	52p	2.7.2001	1.7.2006
Ray Kelly	230,375	—	—	230,375	29.3p	5.5.96	4.5.2003
	25,000	—	—	25,000	28.5p	25.5.97	24.5.2004
	716,981	—	—	716,981	26.5p	21.6.98	20.6.2005
	—	394,231	—	394,231	52p	2.7.2001	1.7.2006
Bruno Kemoun	256,410	—	—	256,410	27.3p	18.9.95	17.9.2002
	963,324	—	—	963,324	26.5p	21.6.98	20.6.2005
	—	510,997	—	510,997	52p	2.7.2001	1.7.2006
Eryck Rebbouh	256,410	—	—	256,410	27.3p	18.9.95	17.9.2002
	963,324	—	—	963,324	26.5p	21.6.98	20.6.2005
	—	510,997	—	510,997	52p	2.7.2001	1.7.2006

Note: As the Company was not able to issue options to Crispin Davis under the approved Executive Share Option Scheme in October 1994, there is an arrangement between Crispin Davis and the Company whereby he may be compensated for certain adverse aspects of the unapproved options.

Options granted during the year were subject to performance conditions as described in the paragraph headed "Share options" on page 30. No options were exercised by directors during the year or up to 28 April 1997.

Executive share option schemes

It is proposed by the Board that both the 1995 Executive Share Option Scheme and the 1995 No 2 Executive Share Option Scheme be amended to reduce the minimum exercise period from 5 years to 3 years. No changes to the performance criteria for both grant and exercise of options which are substantially more challenging than is usual (5% in excess of European composite inflation) are proposed.

The Board, having considered the alternatives, believes that share options provide the best means to continue to motivate and retain the Group's key executives for the following reasons:

- Aegis operates in a highly competitive international media services market, competing for key executives in a market of large global players.
- In line with Aegis's stated strategy to establish a global presence, future free cashflow will be used to fuel this expansion programme which thus precludes the establishment of any alternative cash-based incentive scheme.
- Aegis's competitors tend to have a financial structure and growth strategy which more readily permits them to share returns with executives on a more immediate basis.

This proposal has been discussed with the ABI which is sympathetic to Aegis' position but believes it is a matter upon which individual shareholders must decide.

Report of the directors

In addition, it is proposed that the scheme rules be amended to allow the Board discretion as to circumstances in which earlier exercise may be permitted on the option holder ceasing to be a director or employee of any participating company. This discretion was provided within the rules of the 1984 Executive Share Option Scheme and the Board believes there should be consistency between the old and new schemes.

Shareholder consent is required to implement the amendments described above. An ordinary resolution to approve the necessary amendments to the scheme rules will therefore be proposed at the Annual General Meeting, details of which are contained in the Notice of meeting on pages 60 and 61.

Corporate governance

On 1 December 1992 the Cadbury Committee published its report on the Financial Aspects of Corporate Governance which included a suggested Code of Best Practice. The Board considers that the Company complies with all the recommendations of this Code of Best Practice except the recommendations relating to the appointment of non-Executive directors for a specified term and, in some respects, the selection of non-Executive directors. Two of the Company's non-Executive directors, John Vogelstein and Dominic Shorthouse, have been nominated by a major shareholder, affiliates of Warburg, Pincus & Co. These non-Executive directors do not currently have specified terms of appointment.

Frank S Law CBE, who was appointed to the Board in 1987 and is currently non-Executive Chairman, also has no specific term of appointment.

The Board currently has 13 directors, comprising six Executive directors and seven non-Executive directors and meets regularly throughout the year.

The Board has appointed the following committees:

Audit Committee

The Audit Committee comprises Sir Peter Thompson (Chairman), Frank S Law CBE, Sir Kit McMahon, Dominic Shorthouse and John Vogelstein and meets at least twice each year. It has particular responsibility for ensuring that the Company's financial statements present a true and fair reflection of the Company's financial position and that appropriate financial controls are in operation. These meetings are attended by the Group Finance Director and the external auditors. The Board considers that, through the Audit Committee, it has an objective and professional relationship with the auditors.

Remuneration and Nomination Committees

The Remuneration and Nomination Committees both comprise John Vogelstein (Chairman), Frank S Law CBE, Sir Kit McMahon, Sir Peter Thompson and Dominic Shorthouse. This is in accordance with the Institute of Directors' recommendations on the constitution of Remuneration Committees. The Remuneration Committee meets as and when necessary to review salaries of Executive directors and senior management together with incentive schemes for the Group as a whole. It is empowered to grant share options under the existing Share Option Schemes. The Nomination Committee meets as and when necessary and has responsibility for nominating to the Board candidates for appointment as directors.

Internal financial control

The Board is responsible for establishing and maintaining the Group's systems of internal financial control. Internal control systems are designed to meet the particular needs of the company concerned and the risks to which it is exposed, and by their nature can provide only reasonable and not absolute assurance against material misstatement or loss. The operating environment and key procedures which the directors have established with a view to providing effective internal financial control are as follows:

- The Board has overall responsibility for the Group's system of internal control. The full Board meets regularly and has formally adopted a schedule of matters which are required to be brought to it for decision, thus ensuring that it maintains full and effective control over appropriate strategic, financial, operational and compliance issues. The Board has put in place an organisational structure with clearly defined lines of responsibility and delegation of authority. There are also established procedures for planning and capital expenditure and information and reporting systems for monitoring the Group's businesses and their performance. The Audit Committee, comprising non-Executive directors, reviews the effectiveness of the internal control environment of the Group and receives reports from Group Finance and the external auditors on a regular basis;

- The directors have delegated to executive management implementation of the system of internal control throughout the Group. This includes financial controls which enable the Board to meet its responsibilities for the integrity and accuracy of the Group's accounting records. The Group's report and accounts, prepared from these records, comply fully with accounting principles generally accepted in the United Kingdom and the Group aims to be amongst the leaders in the field of financial reporting.

- The internal control system is monitored and supported by a Group Finance function that operates on a global basis and reports to management and the Audit Committee on the Group's operations. The work of Group Finance is focused on areas of greatest risk to the Group. The external auditors are engaged to express an opinion on the Group's report and accounts. They independently and objectively review the performance of management in reporting operating results and financial condition. In co-ordination with Group Finance they also review and test the system of internal financial control and the data contained in the report and accounts to the extent necessary for expressing their opinion.

The directors confirm that they have carried out a review of the effectiveness of the system of internal financial control as it operated during the year.

Going concern

The Cadbury Committee's Code of Best Practice recommends that the directors make a statement of their assessment of the ability of the Group and the parent company to continue in operational existence as a going concern.

After making enquiries, the directors have a reasonable expectation that the Group and the parent company have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

By order of the Board

Elizabeth Richardson
Secretary

E Richardson

11A West Halkin Street
London SW1X 8JL

28 April 1997

Report of the auditors

Report of compliance with the Cadbury Code of Best Practice

Report by the auditors to the Board of directors

In addition to our audit of the financial statements we have reviewed your statements in the Directors' report on pages 34 and 35 concerning the Group's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange and the adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to any non-compliance with Listing Rules 12.43(j) and 12.43(v), if not otherwise disclosed.

Basis of opinion

We carried out our review having regard to guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or corporate governance procedures, nor on the ability of the Group to continue in operational existence.

Opinion

In our opinion, your statements on internal financial controls on pages 34 and 35 and on going concern on page 35 have provided the disclosures required by the Listing Rules referred to above and are consistent with the information which came to our attention as a result of our audit work on the financial statements.

In our opinion, based on enquiry of certain directors and officers of the Company, and examination of relevant documents, your statement on page 34 appropriately reflects the Group's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

Price Waterhouse
Chartered Accountants

Southwark Towers
32 London Bridge Street
London SE1 9SY

28 April 1997

Report of the auditors
Audit opinion

To the members of Aegis Group plc

We have audited the financial statements on pages 38 to 59 (including the additional disclosures on pages 29 to 34 relating to the remuneration of the directors specified for our review by the London Stock Exchange) which have been prepared under the historical cost convention, as modified by the revaluation of the Company's fixed asset investments, and the accounting policies set out on pages 43 and 44.

Respective responsibilities of directors and auditors

As described on page 29, the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 1996 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Price Waterhouse
Chartered Accountants
and Registered Auditors

Southwark Towers
32 London Bridge Street
London SE1 9SY

28 April 1997

Consolidated profit and loss account

for the year ended 31 December 1996

	Notes	1996 £'m	1995 £'m
Turnover	2	3,452.5	3,400.9
Cost of sales		(3,273.0)	(3,235.7)
Gross income		179.5	165.2
Operating expenses		(137.6)	(128.6)
Income from interests in associated undertakings		0.3	0.1
Operating profit		42.2	36.7
Interest and similar charges:			
– interest receivable		5.6	6.0
– interest payable	3	(6.3)	(8.5)
– amortisation of refinancing costs	3	(0.5)	(0.6)
		(1.2)	(3.1)
– write-off of refinancing costs	3	(1.4)	—
Net interest payable and similar charges		(2.6)	(3.1)
Profit on ordinary activities before taxation	2, 5	39.6	33.6
Tax on profit on ordinary activities	6	(10.7)	(8.5)
Profit on ordinary activities after taxation		28.9	25.1
Equity minority interests		(0.9)	(1.6)
Profit for the financial year		28.0	23.5
Dividends:			
– preference	7	(0.8)	(0.5)
– ordinary	7	(5.0)	—
Retained profit for the financial year		22.2	23.0
Earnings per share			
– Basic	8	3.3p	2.8p
– Fully diluted basic	8	3.0p	2.6p

All activities in 1996 and 1995 were continuing.

Consolidated statement of total recognised gains and losses

for the year ended 31 December 1996

	1996 £'m	1995 £'m
Profit for the financial year	**28.0**	23.5
Currency translation differences on foreign currency net investments	**6.8**	(7.5)
Total recognised gains and losses relating to the year	**34.8**	16.0

Reconciliation of movements in shareholders' funds

for the year ended 31 December 1996

	Group		Company	
	1996 £'m	1995 £'m	1996 £'m	1995 £'m
Profit for the financial year	**28.0**	23.5	**102.5**	13.6
Preference dividends	**(0.8)**	(0.5)	**(0.8)**	(0.5)
Ordinary dividends	**(5.0)**	—	**(5.0)**	—
	22.2	23.0	**96.7**	13.1
Issue of shares by the Company (net of expenses)	**0.7**	2.4	**0.7**	2.4
Goodwill written off in the year	**(18.4)**	(9.9)	—	—
Currency translation differences on foreign currency net investments	**6.8**	(7.5)	—	—
Net increase in shareholders' funds	**11.3**	8.0	**97.4**	15.5
Shareholders' funds at 1 January	**(107.1)**	(115.1)	**147.4**	131.9
Shareholders' funds at 31 December	**(95.8)**	(107.1)	**244.8**	147.4

Details of goodwill written off in the year are set out in note 18 to the financial statements.

Note of historical cost profits and losses

for the year ended 31 December 1996

There is no material difference between the reported results for 1996 and 1995 and the results for those years restated on an unmodified historical cost basis.

Balance sheets
at 31 December 1996

	Notes	Group 1996 £'m	Group 1995 £'m	Company 1996 £'m	Company 1995 £'m
Fixed assets					
Tangible assets	9	**13.3**	15.2	**0.3**	0.4
Investments	10	**2.1**	1.4	**398.1**	123.3
		15.4	16.6	**398.4**	123.7
Current assets					
Debtors	11	**513.0**	528.1	**31.6**	104.0
Investments	12	**—**	5.6	**—**	—
Cash at bank and in hand		**49.1**	49.7	**0.3**	1.1
		562.1	583.4	**31.9**	105.1
Creditors: amounts falling due within one year	13	**(641.7)**	(653.8)	**(180.2)**	(73.8)
Net current (liabilities)/assets		**(79.6)**	(70.4)	**(148.3)**	31.3
Total assets less current liabilities		**(64.2)**	(53.8)	**250.1**	155.0
Creditors: amounts falling due after more than one year	14	**(28.5)**	(42.5)	**(3.0)**	(2.3)
Provisions for liabilities and charges	15	**(2.3)**	(7.0)	**(2.3)**	(5.3)
		(95.0)	(103.3)	**244.8**	147.4
Capital and reserves					
Issued, allotted, called up and fully paid share capital:	16				
– equity		**41.5**	41.2	**41.5**	41.2
– non-equity		**3.2**	3.4	**3.2**	3.4
		44.7	44.6	**44.7**	44.6
Share premium account:	17				
– equity		**33.2**	32.0	**33.2**	32.0
– non-equity		**10.7**	11.3	**10.7**	11.3
		43.9	43.3	**43.9**	43.3
Capital redemption reserve	17	**0.2**	0.2	**0.2**	0.2
Special reserve	17	**22.7**	23.4	**22.7**	23.4
Goodwill reserve	17	**(525.2)**	(506.8)	**—**	—
Merger reserve	17	**—**	—	**13.0**	13.0
Profit and loss account	17	**317.9**	288.2	**120.3**	22.9
Shareholders' funds		**(95.8)**	(107.1)	**244.8**	147.4
Analysed as:					
– equity		**(109.7)**	(121.8)	**230.9**	132.7
– non-equity		**13.9**	14.7	**13.9**	14.7
		(95.8)	(107.1)	**244.8**	147.4
Equity minority interests		**0.8**	3.8	**—**	—
		(95.0)	(103.3)	**244.8**	147.4

Crispin Davis } *Directors*
Colin Day }

28 April 1997

Consolidated cash flow statement

for the year ended 31 December 1996

	1996 £'m	1995 £'m
Net cash flow from operating activities	42.7	35.0
Returns on investments and servicing of finance		
Interest received	5.6	6.0
Interest paid	(6.6)	(8.6)
Issue costs of new loan	(1.0)	—
Interest element of finance lease rental payments	(0.1)	(0.1)
Preference dividends paid	(0.6)	(0.5)
Dividends paid to minority interests	(1.0)	(0.8)
Net cash flow for returns on investments and servicing of finance	(3.7)	(4.0)
Taxation	(10.1)	(5.2)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(4.8)	(5.4)
Sale of tangible fixed assets	0.6	1.7
Purchase of investments	(0.1)	(3.3)
Sale of investments	5.6	0.7
Net cash flow for capital expenditure and financial investments	1.3	(6.3)
Acquisitions and disposals (note 18)		
Purchase of subsidiary undertakings and minority interests	(11.8)	(4.1)
Cash acquired on purchase of subsidiary undertakings	1.4	—
Sale of subsidiary undertakings	0.1	—
Investment in associated undertakings	(0.9)	(0.5)
Deferred payments on prior period acquisitions	(5.4)	(1.5)
Net cash flow for acquisitions and disposals	(16.6)	(6.1)
Equity dividends paid	(2.1)	—
Cash flow before financing	11.5	13.4
Financing		
Issue of share capital	0.7	—
Debt due within one year		
– repayment of secured loan	—	(14.6)
Debt due after more than one year		
– new loan received	26.9	—
– repayment of old loan	(32.5)	—
– repayment of new loan	(7.8)	—
Capital element of finance lease rental payments	(0.2)	(0.3)
Movement on offsetting cash balances	—	4.4
Net cash flow from financing	(12.9)	(10.5)
(Decrease)/increase in cash in the period	(1.4)	2.9

Notes to this consolidated cash flow statement are provided overleaf.

1. Principal accounting policies *continued*

Leased assets

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

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

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

Subsidiary undertakings

Investments in subsidiaries are held at cost less any provisions for permanent diminution in value.

Associated undertakings

Companies in which the Group has an interest comprising not less than 20 per cent of the voting capital and over which it exerts significant influence are treated as associated undertakings. Investments in associated undertakings are included in the consolidated balance sheet at cost less goodwill, less provisions for permanent diminution in value plus attributable post-acquisition retained profits.

Deferred taxation

Provision is made for timing differences between the treatment of certain items for taxation and accounting purposes to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Pension costs

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

With minor exceptions these funds are placed with separate trustee administered schemes or insurance companies.

2. Net (liabilities)/assets and operating performance

	Net (liabilities)/assets		Profit/(loss) on ordinary activities before taxation		Turnover	
	1996 £'m	1995 £'m	1996 £'m	1995 £'m	1996 £'m	1995 £'m
Geographical analysis:						
UK	(78.2)	(152.8)	—	(4.5)	598.8	517.0
Mainland Europe	(3.0)	58.6	41.9	41.1	2,829.2	2,883.9
USA and South East Asia	(13.8)	(9.1)	—	—	24.5	—
	(95.0)	(103.3)	41.9	36.6	3,452.5	3,400.9
Income from interests in associated undertakings			0.3	0.1		
Net interest payable and similar charges			(1.2)	(3.1)		
Write-off of refinancing costs			(1.4)	—		
Profit on ordinary activities before taxation			39.6	33.6		

The result in the UK is stated after central costs. The UK operating companies traded profitably.

2. Net (liabilities)/assets and operating performance *continued*

A further analysis of turnover by geographical area is set out below:

	1996 £'m	1995 £'m
France	**935.3**	829.0
Germany	**875.8**	1,027.8
UK	**598.8**	517.0
Scandinavia	**358.8**	360.3
Spain	**349.7**	366.8
Italy	**126.8**	99.5
Rest of Europe	**182.8**	200.5
USA and South East Asia	**24.5**	—
	3,452.5	3,400.9

A further analysis of profits has not been given since, in the opinion of the directors, this would be seriously prejudicial to the interests of the Group.

The Group operates in only one business sector; media planning and buying.

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

Acquisitions in the year contributed £24.4 million to turnover and £0.1 million to profit in 1996.

3. Interest payable and similar charges

	1996 £'m	1995 £'m
Interest payable:		
On bank loans, overdrafts and other loans repayable within five years	3.2	6.6
Other	3.1	1.9
	6.3	8.5
Amortisation of refinancing costs	0.5	0.6
Write-off of refinancing costs	1.4	—
	8.2	9.1

On 25 June 1996, the Group entered into new banking facilities under which the Group obtained a multi-currency term loan of £30 million, a revolving credit facility of £70 million and a media guarantee facility of £70 million. The term loan is repayable in varying instalments to 31 July 1999 with extensions available at the Group's option for one or two years. Interest is payable on the term loan and the revolving credit facility at LIBOR plus a maximum of 1.125%.

As a result of entering into these new banking arrangements, refinancing costs of £1.4 million relating to the Group's old banking facilities, previously deferred in accordance with FRS4, have been written off to the profit and loss account. The cost of the new facilities (£1.0 million) has been capitalised and will be written off over three years, representing the minimum period of the new arrangements.

4. Employees

	1996 £'m	1995 £'m
Staff costs consist of:		
Wages and salaries	68.2	62.1
Social security costs	15.0	13.4
Other pension costs	1.4	1.0
	84.6	76.5

The average number of full-time employees of the Group during the year, all of whom were employed in media planning and buying, was 1,947 (1995: 1,846).

The average number of full-time employees in the UK during the year was 444 (1995: 396).

Directors' remuneration is disclosed in the Report of the directors at page 31. The total amount of directors' remuneration in 1996 was £3.2 million (1995: £3.9 million).

5. Profit on ordinary activities before taxation

	1996 £'m	1995 £'m
This is stated after charging:		
Depreciation of fixed assets	4.8	4.5
Operating lease rentals	7.2	6.9
Auditors' remuneration and expenses	0.4	0.4
Other fees and expenses payable to the Group's auditors	0.1	0.1
Profit on sale of tangible fixed assets	—	(0.3)

Auditors' remuneration and expenses payable by the Company were £0.1 million (1995: £0.1 million).

6. Tax on profit on ordinary activities

	1996 £'m	1995 £'m
UK corporation tax at 33% (1995: 33%) based on profit for the year	—	—
Overseas taxation	10.7	8.5
	10.7	8.5

7. Dividends

	1996 £'m	1995 £'m
Non-equity: Preference		
Variable rate convertible cumulative redeemable preference shares 2003 of 5p each		
– conventional dividend paid at 0.68p per share	0.4	0.5
– foreign income dividend paid at 0.25p per share	0.2	—
– foreign income dividend proposed at 0.35p per share	0.2	—
	0.8	0.5

Equity: Ordinary		
Ordinary shares of 5p each		
– interim dividend at 0.25p per share paid as a foreign income dividend	2.1	—
– final dividend proposed at 0.35p per share to be paid as a foreign income dividend	2.9	—
	5.0	—

Under the Finance Act 1994, Aegis Group plc elected to treat its interim dividend as a Foreign Income Dividend ("FID"). It is proposed that the final dividend is also paid as a FID. As the dividend is being paid out of "distributable foreign profits" this allows ACT payable to be refunded to the extent that these have suffered tax at an appropriate level; this ACT would otherwise be irrecoverable. In calculating the amount of the FID payable the Company has taken into account the likely refund of ACT and has increased the dividend fully for this.

In accordance with the terms of issue, 1996 dividends paid on the variable rate convertible cumulative redeemable preference shares 2003 of 5p each were at the rate of 4%, part paid as a conventional dividend and part paid as a FID. The FID proposed of 0.35p per share will form part of the preference shareholders' 1997 dividend entitlement. Further details on non-equity preference share rights are set out in note 16.

The final dividend,if approved, will be paid as a FID on 3 July 1997 to all ordinary and preference shareholders on the register on 13 June 1997.

8. Earnings per ordinary share

The calculation of earnings per ordinary share is based on a profit of £27.2 million (1995: £23.0 million) net of tax, minority interests and preference dividends and on average number of ordinary shares in issue of 828.5 million (1995: 821.0 million).

The calculation of earnings per share on a fully diluted basis is based upon earnings of £29.9 million (1995: £25.1 million) and an average number of ordinary shares outstanding of 984.2 million (1995: 968.6 million). The amount for fully diluted earnings is stated after adjustment for preference dividends and imputed income, net of tax, on exercise of warrants and options.

9. Tangible fixed assets

	Freehold land & buildings £'m	Leasehold improvements £'m	Office furniture, fixtures, equipment & vehicles £'m	Total £'m
Group:				
Cost at 1 January 1996	4.9	7.4	23.7	36.0
Additions	0.1	0.2	4.5	4.8
In subsidiaries acquired	—	0.1	0.5	0.6
Disposals	—	(0.2)	(2.1)	(2.3)
Exchange adjustments	(0.8)	(1.7)	(3.1)	(5.6)
At 31 December 1996	**4.2**	**5.8**	**23.5**	**33.5**
Depreciation at 1 January 1996	0.5	6.1	14.2	20.8
Provided for in the year	0.2	0.3	4.3	4.8
In subsidiaries acquired	—	—	0.3	0.3
Disposals	—	(0.2)	(1.5)	(1.7)
Exchange adjustments	(0.1)	(1.5)	(2.4)	(4.0)
At 31 December 1996	**0.6**	**4.7**	**14.9**	**20.2**
Net book value				
At 31 December 1996	**3.6**	**1.1**	**8.6**	**13.3**
At 31 December 1995	4.4	1.3	9.5	15.2
Company:				
Cost at 1 January 1996	—	0.1	0.4	0.5
Additions	—	—	—	—
At 31 December 1996	**—**	**0.1**	**0.4**	**0.5**
Depreciation at 1 January 1996	—	—	0.1	0.1
Provided for in the year	—	—	0.1	0.1
At 31 December 1996	**—**	**—**	**0.2**	**0.2**
Net book value				
At 31 December 1996	**—**	**0.1**	**0.2**	**0.3**
At 31 December 1995	—	0.1	0.3	0.4

The net book value of the Group's tangible fixed assets includes an amount of £0.7 million (1995: £0.8 million) in respect of assets held under finance leases. The net book value of the Company's tangible fixed assets includes £nil (1995: £nil) in respect of assets held under finance leases.

The Group has capital commitments, contracted for but not provided, of £0.1 million (1995: £nil). The Company has no capital commitments contracted for but not provided (1995: £nil).

10. Fixed asset investments

	Share of associated undertakings' net assets £'m	Unlisted investments £'m	Own shares £'m	Total investments £'m
Group:				
Net book value at 1 January 1996	0.4	0.6	0.4	1.4
Additions	0.9	0.1	—	1.0
In subsidiaries acquired	—	0.2	—	0.2
Retained income from interests in associated undertakings	0.2	—	—	0.2
Disposals	—	(0.1)	—	(0.1)
Provisions	(0.7)	—	0.3	(0.4)
Exchange movements	(0.1)	(0.1)	—	(0.2)
Net book value at 31 December 1996	**0.7**	**0.7**	**0.7**	**2.1**
Company:				
Net book value at 1 January 1996	—	122.9	0.4	123.3
Additions	—	303.0	—	303.0
Disposals	—	(129.0)	—	(129.0)
Write back of provision for diminution in value	—	100.8	—	100.8
Net book value at 31 December 1996	**—**	**397.7**	**0.4**	**398.1**

The Company's fixed asset investments principally relate to shares in subsidiary undertakings. Following the successful refinancing and corporate restructuring during the year, provisions against some of the Company's unlisted investments are no longer required and, in accordance with the Companies Act 1985, these provisions have been written back to the Company's Profit and Loss account. The historical cost of the Company's fixed asset investments is £449.8 million.

The Group and Company have UK listed fixed asset investments with a market value at 31 December 1996 of £16,628 (1995: £3,000).

A list of the Group's principal subsidiary and associated undertakings is disclosed in note 23.

The nominal value of own shares held at 31 December 1996 was £0.1 million (1995: £0.1 million).

Related party transactions with associated undertakings

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

Carat France SA provided administration services to Consodata SA, an associated undertaking, for a fee of £74,826 in 1996. The balance due at the year end was £23,735 (1995: nil).

Carat Expert SA provided expertise to Europa Programme SA, an associated undertaking, for a fee of £573,666 in 1996. The balance due at the year end was £130,259 (1995: nil).

Carat España purchased media space on behalf of Publisal Carat SA, an associated undertaking, totalling £9,768,195 in 1996. The balance due at the year end was £2,972,596 (1995: £2,769,685).

Carat España had a balance due from Publiexclusivas SA, an associated undertaking, of £1,572,366 which was fully provided for in previous years. There were no transactions in the period.

11. Debtors

	Group 1996 £'m	Group 1995 £'m	Company 1996 £'m	Company 1995 £'m
Trade debtors	456.3	469.5	—	—
Amounts due from Group undertakings	—	—	30.1	99.8
Amounts due from associated undertakings	3.1	2.8	—	—
Other debtors	28.4	35.7	1.4	4.1
Prepayments and accrued income	25.2	20.1	0.1	0.1
	513.0	528.1	31.6	104.0

12. Current asset investments

	Group 1996 £'m	Group 1995 £'m	Company 1996 £'m	Company 1995 £'m
Other investments	—	5.6	—	—

Current asset investments principally comprised unlisted investments.

13. Creditors: amounts falling due within one year

	Group 1996 £'m	Group 1995 £'m	Company 1996 £'m	Company 1995 £'m
Bank loans and overdrafts	38.2	31.8	68.3	65.9
Less deferred FRS4 costs to be amortised	(0.3)	(0.5)	(0.3)	(0.5)
	37.9	31.3	68.0	65.4
Trade creditors	518.7	531.9	—	—
Finance leases and hire-purchase contracts	0.3	0.4	—	—
Amounts due to Group undertakings	—	—	100.7	0.6
Taxation and social security	16.9	18.4	0.1	0.1
Corporation tax	7.2	6.4	1.2	—
Dividends payable	3.1	—	3.1	—
Other creditors	40.8	45.4	6.1	6.8
Accruals and deferred income	16.8	20.0	1.0	0.9
	641.7	653.8	180.2	73.8

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

	Group 1996 £'m	Group 1995 £'m	Company 1996 £'m	Company 1995 £'m
Bank loans	17.8	35.0	—	—
Less deferred FRS4 costs to be amortised	(0.5)	(1.2)	(0.5)	(1.2)
	17.3	33.8	(0.5)	(1.2)
Finance leases and hire purchase contracts	0.4	0.4	—	—
Other creditors	10.8	8.3	3.5	3.5
	28.5	42.5	3.0	2.3

Bank loans and overdrafts are represented by a multi currency term loan and revolving credit facility and are secured by a fixed and floating charge over the shares of certain subsidiary undertakings. The term loan is repayable in varying instalments up to July 1999. £5.4 million (1995: £10.0 million) is repayable between one and two years. £12.4 million (1995: £25.0 million) is repayable between two and five years. No amount (1995: £nil) is repayable after more than five years. Interest is payable on the term loan at LIBOR plus a maximum of 1.125%.

There is £nil in other creditors (1995: £nil) repayable in instalments more than five years from the date of the balance sheet.

15. Provisions for liabilities and charges

	Property £'m	Other reorganisation £'m	Total £'m
Group:			
At 1 January 1996	4.1	2.9	7.0
Utilised in the year	(1.8)	(2.9)	(4.7)
At 31 December 1996	2.3	—	2.3
Company:			
At 1 January 1996	4.0	1.3	5.3
Utilised in the year	(1.7)	(1.3)	(3.0)
At 31 December 1996	2.3	—	2.3

Group and Company:
No provision for deferred taxation is recorded due to the availability of tax losses carried forward which offset the full potential effect of timing differences between the treatment of certain items for taxation and accounting purposes. There was no material unprovided liability for deferred taxation at 31 December 1996 or 31 December 1995.

16. Share capital

	1996 Equity £'m	1996 Non-equity £'m	1996 Total £'m	1995 Equity £'m	1995 Non-equity £'m	1995 Total £'m
Authorised:						
1,200,000,000 (1995: 1,200,000,000) ordinary shares of 5p each	60.0	—	60.0	60.0	—	60.0
68,181,820 (1995: 68,181,820) variable rate convertible cumulative redeemable preference shares 2003 of 5p each	—	3.4	3.4	—	3.4	3.4
	60.0	3.4	63.4	60.0	3.4	63.4
Issued, allotted, called up and fully paid:						
830,476,443 (1995: 824,389,892) ordinary shares of 5p each	41.5	—	41.5	41.2	—	41.2
63,781,533 (1995: 67,588,752) variable rate convertible cumulative redeemable preference shares 2003 of 5p each	—	3.2	3.2	—	3.4	3.4
	41.5	3.2	44.7	41.2	3.4	44.6

Ordinary shares

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

During the year the following issues of ordinary shares were made:

Date (1996)	Reason for issue	Number of ordinary shares issued	Consideration
6 February	Conversion of preference shares	15,901	—
12 March	Conversion of preference shares	3,623,855	—
9 April	Conversion of preference shares	32,040	—
6 May	Conversion of preference shares	51,600	—
13 May	Exercise of share options	92,150	£27,000
17 May	Exercise of share options	414,674	£121,500
17 May	Exercise of share options	177,924	£47,150
24 May	Exercise of share options	46,075	£13,500
4 June	Exercise of share options	253,412	£74,250
18 June	Exercise of share options	345,561	£101,249
19 June	Conversion of preference shares	261	—
1 July	Exercise of share options	46,075	£13,500
8 July	Exercise of share options	138,225	£40,500
17 July	Exercise of share options	276,450	£81,000
22 July	Exercise of share options	69,112	£20,250
1 August	Conversion of preference shares	77,044	—
4 September	Conversion of preference shares	258	—
18 September	Subscription of warrants	5,000	£1,500
21 October	Exercise of share options	138,225	£40,500
18 November	Exercise of share options	46,075	£13,500
18 November	Conversion of preference shares	6,260	—
23 December	Exercise of share options	230,374	£67,500

The company received £0.7 million as consideration on exercise of share options and subscription of warrants.

Under the executive share option scheme there were outstanding at 31 December 1996, options over 44,893,581 ordinary shares of 5p each for which the participants have the right to exercise their options at prices ranging from 25.5p to 165.8p. These options are exercisable between 1 January 1997 and 21 October 2006.

16. Share capital *continued*

Preference shares

The variable rate convertible cumulative redeemable preference shares 2003 of 5p each have restricted rights as specified in the Company's Memorandum and Articles of Association. These preference shares are redeemable at par plus any premium paid on issue. They are convertible into fully paid ordinary shares of 5p each at any time from 1 July 1995 on the basis of one ordinary share for each variable rate cumulative convertible redeemable preference share 2003 of 5p each so converted. Unless otherwise converted or redeemed, the Company shall redeem on 31 December 2003 all of the preference shares at par plus any premium paid thereon. The rate of preferential dividend is 4% per annum for the year ended 31 December 1996 and 5% per annum for financial years thereafter. In the event of winding up or otherwise, these shares rank in priority to the ordinary shares of 5p each.

Warrants

Warrants to subscribe for 50 million ordinary shares of 5p each were granted in 1993. These warrants have an exercise price of 30p and are exercisable until 9 December 1998. The warrants do not rank for any dividends which may be paid to the holders of ordinary shares. Warrant holders have no rights to participate in a liquidation of Aegis Group plc.

17. Reserves

	Share premium account (equity) £'m	Share premium account (non-equity) £'m	Capital redemption reserve £'m	Special reserve £'m	Goodwill reserve £'m	Profit and loss account £'m
Group:						
At 1 January 1996	32.0	11.3	0.2	23.4	(506.8)	288.2
Retained profit for the financial year	—	—	—	—	—	22.2
Issue of shares by the Company (net of expenses)	1.2	(0.6)	—	—	—	—
Goodwill arising in the year written-off	—	—	—	—	(18.4)	—
Transfers	—	—	—	(0.7)	—	0.7
Currency translation differences on foreign currency net investments	—	—	—	—	—	6.8
At 31 December 1996	**33.2**	**10.7**	**0.2**	**22.7**	**(525.2)**	**317.9**

The cumulative amount of goodwill arising from acquisitions during the year ended 31 December 1996 and prior years, net of goodwill attributable to subsidiary undertakings disposed of prior to 31 December 1996, amounted to £525.2 million (1995: £506.8 million).

	Share premium account (equity) £'m	Share premium account (non-equity) £'m	Capital redemption reserve £'m	Special reserve £'m	Merger reserve £'m	Profit & loss account £'m
Company:						
At 1 January 1996	32.0	11.3	0.2	23.4	13.0	22.9
Retained profit for the year	—	—	—	—	—	96.7
Issue of shares by the Company (net of expenses)	1.2	(0.6)	—	—	—	—
Transfers	—	—	—	(0.7)	—	0.7
At 31 December 1996	**33.2**	**10.7**	**0.2**	**22.7**	**13.0**	**120.3**

Following the issue of shares during the year a further £0.7 million has been transferred from the special reserve to the profit and loss reserve account in accordance with a court approved share premium account reduction scheme implemented in 1994.

The Company has not presented its own profit and loss account as permitted by Section 230 (1) of the Companies Act 1985. The profit dealt with in the accounts of the Company for the 12 months to 31 December 1996 was £102.5 million (12 months to 31 December 1995: £13.6 million). Included within this result is £100.8 million relating to the write back of certain provisions against investments in subsidiaries which, under the terms of the court approved share premium reduction scheme, is not available for distribution.

18. Acquisitions

During the year the Group made certain acquisitions of subsidiaries, associated undertakings and minority interests as detailed below:

	Fair value of net assets £'m
Net assets acquired	
Tangible fixed assets	0.3
Other fixed asset investments	0.2
Debtors	19.9
Cash at bank and in hand	1.4
Creditors	(21.2)
Minority shareholders' interests	2.6
Share of associated undertakings' net assets	0.2
	3.4
Goodwill	18.4
	21.8

	£'m
Satisfied by:	
Cash	12.7
Deferred consideration	9.1
	21.8

All deferred consideration is payable in cash. There were no material fair value adjustments.

Goodwill written off in the year arose as a result of the acquisition of the following:

	Country of incorporation	% acquired	Effective interest in issued ordinary share capital at 31 December 1996
Media Buying Services International Inc.	USA	100%	100%
Consodata Sarl	France	100%	100%
Carat Expansion SA	France	50%	100%
Carat Prospective SA	France	25.1%	100%
Carat España SA	Spain	2.28%	100%
Carat Portugal SA	Portugal	40%	100%
Carat Galicia SA	Spain	33%	100%
Panmedia GmbH	Germany	25.4%	100%
Carat Hellas SA	Greece	24.5%	75.5%
Consodata SA (an associated undertaking)	France	14%	49.0%*

*The Group owns 53% of the share capital of Consodata SA, of which 4% carries no voting rights.

The Group disposed of its 51% holding in its Spanish company Boomerang during 1996. No material amount of goodwill was realised on this disposal.

More specific details of the acquisitions are set out below.

18. Acquisitions *continued*

On 15 October 1996, the Group acquired 100% of Media Buying Services International Inc. from Mr Matthew Bryant and Mr Arthur Kennedy for an initial consideration of £2.5 million. There is also payable certain deferred consideration contingent upon the achievement of certain performance criteria. Mr Bryant and Mr Kennedy are continuing as the senior executive management of the company.

On 22 April 1996, the Group acquired 100% of Consodata Sarl, now renamed Saverne Dvt Sarl, for £0.3 million.

On 1 January 1996, the Group effectively acquired the remaining 50% in Carat Expansion SA. Initial consideration of £2.1 million was paid for 46% with an irrevocable contract to purchase the remaining 4% before 31 December 2000, with all rights to dividends waived on the remaining 4% shareholding. Additional deferred consideration is payable contingent upon the achievement of certain performance criteria with a minimum payable of £0.1 million.

On 10 December 1996, the Group acquired the remaining 25.1% of Carat Propective SA. Initial consideration of £2.8 million was paid with further deferred consideration payable contingent upon the achievement of certain performance criteria, payable between 1997 and 1999.

On 13 December 1996, the Group irrevocably contracted to purchase the remaining 2.28% in Carat España SA, for £0.8 million, on 26 February 1997 with all rights to dividends waived.

On 9 July 1996, the Group acquired a further 37.4% in Carat Portugal from Mr Francisco Gonzales Hidalgo, Chairman of Carat España SA, and Mrs Carmen Ensesa Vinas, wife of Mr Francisco Gonzales Hidalgo (both related parties), for £0.1 million. On 17 December 1996, the Group acquired the remaining 2.6% in Carat Portugal.

On 27 June 1996, the Group acquired the remaining 33% in Carat Galicia SA.

On 1 January 1996, the Group acquired the remaining 25.4% in Panmedia GmbH for £0.2 million.

On 26 September 1996, the Group acquired a further 24.5% in Carat Hellas SA for £0.4 million.

On 22 April 1996, the Group acquired a further 18% interest (with 14% voting rights) in Consodata SA, an associated undertaking for £0.9 million.

19. Contingent liabilities and other commitments

Capital payments

Additional capital payments, which have been fully provided for, may be made to the vendors of certain subsidiary undertakings in the years to 1999. Such payments are either fixed under the terms of the acquisition or are contingent on the future levels of profits achieved by the undertakings. The directors estimate that, at the rates of exchange ruling at the balance sheet date, the maximum liability at 31 December 1996 for payments that may be due is as follows:

	1996 £'m	1995 £'m
Within one year	5.2	5.4
Between one and five years	6.1	4.2
After more than five years	—	—
	11.3	9.6

All of the contingent capital payments noted above are dischargeable in cash. The minimum liability is £4.7 million.

In addition to the items set out above, there are certain put options exercisable between 1996 and 2005 within Carat companies in France, Greece, Switzerland and the United Kingdom. The value of the put options is based upon the profitability of the individual companies. The directors estimate the value of these contingent liabilities to be approximately £6.3 million, payable in a combination of cash and ordinary shares.

Guarantees of £10.7 million (1995: £13.6 million) have been given by the Company on behalf of its subsidiaries together with other guarantees and contingencies arising in the normal course of business.

Notes forming part of the financial statements
for the year ended 31 December 1996

23. Principal subsidiary and associated undertakings

Principal subsidiary undertakings:	Office	Country of incorporation and operation	Effective interest in issued ordinary share capital at 31 December 1996
HMS Carat	Vienna	Austria	100.0%
Carat Crystal	Brussels	Belgium	100.0%
HMS Carat	Prague	Czech Republic	100.0%
Carat Danmark	Copenhagen	Denmark	100.0%
Carat UK	London	England and Wales	100.0%
BBJ Media Services	London	England and Wales	75.0%
Carat Business	London	England and Wales	100.0%
Carat Insight *(Note)*	London	England and Wales	100.0%
Posterscope	London	England and Wales	100.0%
Posterscope in the North	Manchester	England and Wales	100.0%
TMD Carat Advertising	London	England and Wales	100.0%
TMD Direct	London	England and Wales	100.0%
TMD Carat (Manchester)	Manchester	England and Wales	100.0%
TMD Direct (Manchester)	Manchester	England and Wales	100.0%
YMG Carat	London	England and Wales	100.0%
Carat Interactive	London	England and Wales	100.0%
Carat International	London	England and Wales	100.0%
Carat Limited	London	England and Wales	100.0%
Carat Finland	Helsinki	Finland	100.0%
Carat France	Paris	France	100.0%
Carat Expansion	Paris	France	100.0%
Carat 2010	Paris	France	100.0%
Carat Expert	Paris	France	100.0%
Carat MCI	Paris	France	100.0%
Carat Prospective	Paris	France	100.0%
Carat SPFD	Paris	France	100.0%
Carat Sponsorship	Paris	France	85.0%
Cyclades	Paris	France	100.0%
HMS Carat Media-Service	Wiesbaden	Germany	100.0%
HMS Carat Hamburg	Hamburg	Germany	100.0%
PAP Fahlberg	Hamburg	Germany	50.1%
Panmedia	Eschborn	Germany	100.0%
Carat Hellas	Athens	Greece	75.5%
HMS Carat	Budapest	Hungary	100.0%
Carat Italia	Milan, Turin, Bologna, Florence, Padua, Rome	Italy	100.0%
Carat Expert	Milan	Italy	100.0%
Eurospace	Milan	Italy	100.0%
Maxmedia	Milan	Italy	100.0%
Carat Nederland	Amsterdam	Netherlands	100.0%
Carat Inter-Media	Oslo	Norway	100.0%
Carat Media and Research	Oslo	Norway	100.0%
Carat Mediakanalen	Oslo	Norway	100.0%
HMS Carat Polska	Warsaw	Poland	100.0%
Carat Portugal	Lisbon	Portugal	100.0%
Carat Russ-Media	Moscow	Russia	51.0%
HMS Carat Slovakia	Bratislava	Slovak Republic	100.0%
Carat Españo	Madrid, Barcelona, Valencia	Spain	100.0%
Carat Galicia	Madrid	Spain	100.0%
Carat Scandinavia	Stockholm	Sweden	100.0%
Carat Sverige	Stockholm, Gothenburg, Malmo, Vasteras	Sweden	100.0%

23. Principal subsidiary and associated undertakings *continued*

Principal subsidiary undertakings:	Office	Country of incorporation and operation	Effective interest in issued ordinary share capital at 31 December 1996
Micom Carat	Lausanne	Switzerland	80.0%
Micom Carat	Zurich	Switzerland	48.0%
Carat North America	New York	USA	100.0%
MBS/Carat	New York	USA	100.0%

Note: Carat Research UK changed its name to Carat Insight on 20 February 1997.

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

With the exception of a 72.2% shareholding in Carat UK Limited, a 100% shareholding in Carat International Limited and a 100% shareholding in Carat Limited, all of the principal subsidiary and associated undertakings disclosed above are indirectly held. The effective interest in the issued share capital is equivalent to the percentage of voting rights held by the Group. A full list of all subsidiary undertakings, and the information shown above with respect to them, is filed with the Company's annual return.

Principal associated undertakings:	Office	Country of incorporation and operation	Effective interest in issued ordinary share capital at 31 December 1996
Consodata SA	Paris	France	49.0%
Europa Programmes	Paris	France	50.0%
Publisol Carat	Bilbao	Spain	39.8%
Publiexclusivas	Madrid	Spain	40.0%

All shareholdings are of ordinary shares.

On 1 January 1996, two of the Group's associated undertakings in Germany, PAP and HHF, were merged to form a new subsidiary undertaking, PAP Fahlberg.

Notice of meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at 3.00 p.m. on 18 June 1997 at 11A West Halkin Street, London SW1X 8JL for the purpose of transacting the ordinary business of the Annual General Meeting set out in resolutions 1 to 7, and special business, when resolutions 8 and 11 will be proposed as ordinary resolutions and resolutions 9 and 10 will be proposed as special resolutions.

Ordinary business

1. To receive the statement of accounts for the financial year ended 31 December 1996 and the reports of the directors and auditors thereon.
2. To declare a final dividend of 0.35p per Ordinary share
3. To re-elect as a director of the Company, Charles Hochman who retires by rotation and, being eligible, offers himself for re-election.
4. To re-elect as a director of the Company, Frank Law who retires by rotation and, being eligible, offers himself for re-election.
5. To re-elect as a director of the Company, John Vogelstein who retires by rotation and, being eligible, offers himself for re-election.
6. To re-elect as a director of the Company, Ray Kelly who retires by rotation and, being eligible, offers himself for re-election.
7. To re-appoint Price Waterhouse as auditors of the Company and to authorise the directors to fix their remuneration.

Special business

8. That the directors be and are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80 of the Companies Act 1985) up to an aggregate nominal amount of £13,845,000 provided that this authority shall expire (unless previously revoked or varied by the Company in general meeting) 15 months after the date of passing of this resolution or, if earlier, at the conclusion of the next Annual General Meeting of the Company, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.
9. That subject to the passing of resolution 8 above, the directors be and are hereby empowered, pursuant to section 95 of the Companies Act 1985, to allot equity securities (within the meaning of section 94 of the said Act) for cash pursuant to the authority conferred by the said resolution 8 above as if section 89(1) of the said Act did not apply to any such allotment, provided that this power shall be limited:

   (a) to the allotment of equity securities in connection with or pursuant to an offer by way of rights in favour of holders of ordinary shares and in favour of holders of any other class of equity security in accordance with the rights attached to such class where the equity securities respectively attributable to the interests of all such persons are proportionate (as nearly as may be) to the respective numbers of equity securities held by them or are otherwise allotted in accordance with the rights attaching to such equity securities, subject in all cases to such exclusions or other arrangements as the directors deem necessary or expedient in relation to fractional entitlements or legal or practical problems arising under the laws of, or the requirements of any regulatory body or stock exchange in, any territory or otherwise howsoever; and

   (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £2,076,000,

   and shall expire (unless previously revoked or varied by the Company in general meeting) 15 months after the passing of this resolution, or, if earlier, at the conclusion of the next Annual General Meeting of the Company save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

10. The Company be and is hereby unconditionally authorised to make market purchases (as defined in section 163 of the Companies Act 1985) of its ordinary shares of 5p each on the London Stock Exchange and subject to the following conditions:

(a) the maximum number of shares which may be purchased is 41,541,500 ordinary shares;

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

(c) the authority conferred by this resolution shall expire on 18 December 1998 or, if earlier, at the conclusion of the next Annual General Meeting of the Company, save that the Company may before such expiry make a contract to purchase shares which would or might be completed or executed wholly or partly after such expiry and may make a purchase of shares pursuant to such contract as if the authority conferred by this resolution had not expired.

11. That the amendments to the Aegis Group plc 1995 Executive Share Option Scheme and the Aegis Group plc 1995 No 2 Executive Share Option Scheme which are described in the report of the directors on the statement of accounts for the financial year ended 31 December 1996, be and are hereby authorised and that the directors of Aegis Group plc be and are hereby authorised to do all acts and things necessary to establish them and carry them into effect.

By order of the Board

Elizabeth Richardson
Secretary

11A West Halkin Street
London SW1X 8JL

23 May 1997

Notes

A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. A proxy form is enclosed for your use and, if used, should be deposited with the Company's Registrars (The Royal Bank of Scotland plc, P O Box 457, Owen House, 8 Bankhead North, Edinburgh EH11 OXG) not less that 48 hours before the time appointed for the holding of the meeting. Return of the proxy form will not affect the right of a member to attend and vote at the meeting.

Holders of the variable rate convertible cumulative redeemable preference shares 2003 of 5p each, while entitled to receive notice of and to attend the meeting, are not entitled to vote thereat. either in person or by proxy, unless they are also holders of ordinary shares.

Copies of all directors' service contracts with the Company or its subsidiaries of more than one year's duration and the register of directors' interests, together with copies of the amended rules of the share option schemes, will be available for inspection at 11A West Halkin Street, London SW1X 8JL during normal business hours on any business day from the date of this notice until the conclusion of the meeting.

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Shareholder information and financial history

Daily share and warrant price listing in London

System	Share type	Access code	Share type	Access code
TOPIC 3 (mid prices)	ordinary	205	warrant	205
SEAQ (level 2)	ordinary	50032	warrant	50040
REUTERS	ordinary	AGS.L	warrant	AGS$^{W}_{S}$.L

Financial calendar

19 March 1997
Preliminary announcement of full year results

23 May 1997
Publication of annual report

18 June 1997
Annual General Meeting

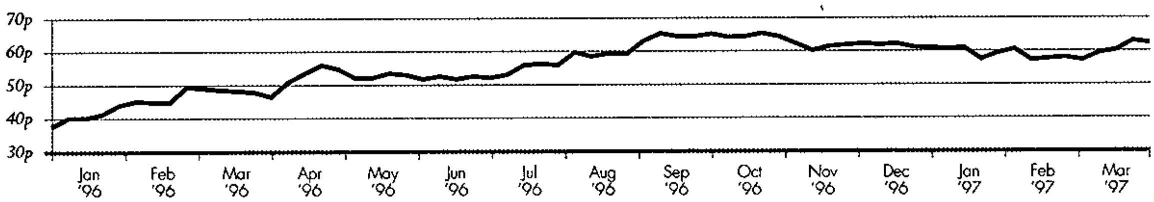
September 1997
Announcement of interim results

CREST

On 13 January 1997 Aegis commenced trading in CREST, the electronic share settlement system. CREST is a voluntary system which gives shareholders the choice of whether to hold shares in electronic or paper form.

Share price

From 1 January 1996 to 31 March 1997 (pence per ordinary share)



Total number of shares traded in 1996: 668,951,067
Average monthly volume of shares traded in 1996: 55,745,922

Five year record

		1992 (as restated) £'m	1993 £'m	1994 £'m	1995 £'m	**1996 £'m**
Turnover		2,845.3	2,748.4	2,969.9	3,400.9	**3,452.5**
Operating profit/(loss)		27.1	(0.6)	23.2	36.7	**42.2**
Profit/(loss) before taxation		(10.9)	(18.1)	20.1	33.6	**39.6**
Taxation		(12.6)	(5.5)	(5.0)	(8.5)	**(10.7)**
Profit/(loss) after taxation		(23.5)	(23.6)	15.1	25.1	**28.9**
Retained profit/(loss)		(30.6)	(29.3)	13.1	23.0	**22.2**
Earnings/(loss) per ordinary share	– basic	(20.8)p	(12.1)p	1.6p	2.8p	**3.3p**
	– fully diluted	—	—	1.4p	2.6p	**3.0p**
Dividends per ordinary share		1.375p	nil	nil	nil	**0.6p**

Notes to five year record

The five year record has been restated to give effect to:

(i) The adoption of FRS4 in 1993 as explained in note 1 to the 1993 Group Accounts (1992 amounts restated); and

(ii) The bonus element inherent in the rights issue of shares during 1993 upon earnings per share (1992 restated).