Aegis Group plc

Report and Accounts

1994

A E G I S

Aegis est la société holding de Carat, le plus important groupe de spécialistes médias en Europe. Les filiales opérationnelles de Carat sont leaders dans la plupart des marchés Européens.
Les services fournis par Carat font partie intégrante de la chaîne des activités de marketing des annonceurs et couvrent l'ensemble du spectre des services médias avec, entre autres, la stratégie média, le média planning et l'achat d'espaces.
Les annonceurs obtiennent le meilleur rapport qualité-prix pour leurs budgets médias, grâce à la connaissance approfondie qu'a Carat du marché des médias et à l'importance de son volume d'achat.

Aegis es la compañía holding de Carat que, a su vez, es el mayor grupo europeo de especialistas en medios. Carat es líder en los mercados europeos más importantes.
Los servicios que ofrece Carat son parte integrante del proceso publicitario y engloban la totalidad de los servicios de medios existentes, incluyendo, entre otros, estrategia, planificación y compra de medios.
La experiencia de Carat en el mercado de medios, complementada con su volumen de compra, permite a los clientes obtener el mejor rendimiento de sus inversiones en medios.

AEGIS IS THE HOLDING COMPANY FOR CARAT WHICH IS EUROPE'S LARGEST GROUP OF MEDIA SPECIALISTS. CARAT'S NATIONAL OPERATING COMPANIES ARE LEADERS IN MOST EUROPEAN MARKETS.

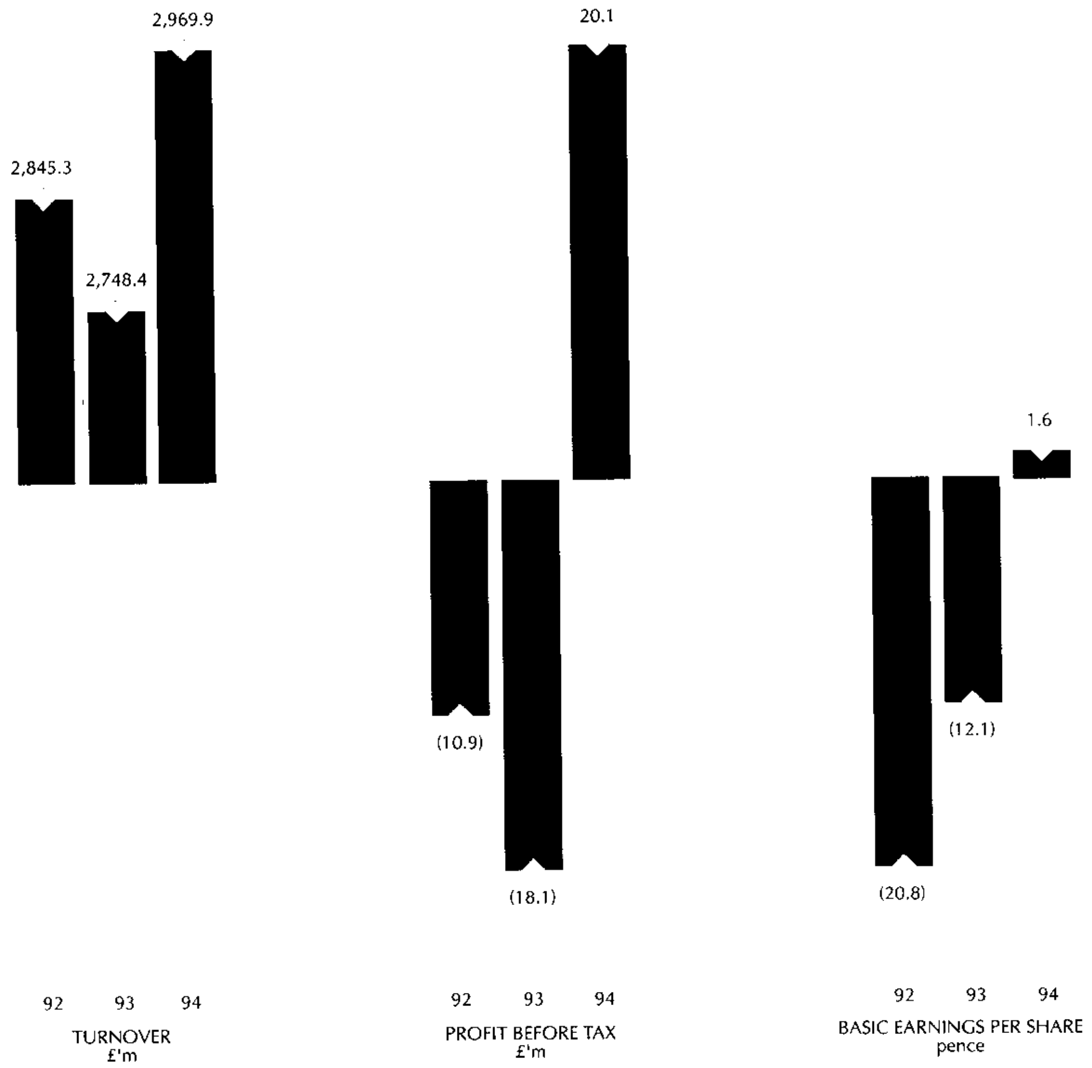
CARAT'S SERVICES ARE AN INTEGRAL PART OF THE ADVERTISER'S MARKETING PROCESS AND EMBRACE THE TOTAL RANGE OF MEDIA SERVICES INCLUDING MEDIA STRATEGY, PLANNING AND BUYING, AMONGST OTHERS.

CARAT'S COMPREHENSIVE KNOWLEDGE OF THE MEDIA MARKETPLACE COMBINED WITH THE SCALE OF ITS BUYING ENABLES ADVERTISERS TO GET THE BEST POSSIBLE VALUE FROM THEIR MEDIA BUDGETS.

Aegis è la holding finanziaria di Carat, il più grande gruppo di specialisti media in Europa. Carat raggruppa solo agenzie media indipendente, la maggior parte leader nel proprio mercato.
Carat fornisce servizi integrati al processo di marketing delle aziende, e copre il servizio media completo, dalla strategia e pianificazione media all'acquisto degli spazi.
Grazie alla profonda conoscenza del mercato media unita alla grande capacità di acquisto spazi, Carat garantisce ai suoi clienti la più alta efficacia dell'investimento media.

Aegis ist die Holding-Gesellschaft von Carat, Europas zur Zeit mit weitem Abstand größter Agentur-Gruppe von Media-Spezialisten. Die zum Agenturnetz von Carat gehörenden europäischen Gesellschaften sind überwiegend und seit Jahren Marktführer in ihren Ländern.
Carat versteht die Media-Disziplin als wesentlichen Bestandteil im Marketing-Mix und bietet Werbungtreibenden einen umfassenden Service in allen Fragen des Media-Geschäftes, insbesondere in fachkundiger Beratung, qualifizierter Media-Forschung, strategischer Planung und effizientem Einkauf.
Durch diese hohe Professionalität ist Carat in allen Ländern in der Lage, Werbungtreibenden eine optimale qualitative und quantitative Ausschöpfung ihrer Media-Budgets zu ermöglichen.

Financial highlights



IN 1994 AEGIS SAW A RETURN TO PROFIT FOLLOWING THE SUCCESSFUL REFINANCING IN OCTOBER 1993. WE HAVE CONTINUED TO INCREASE VOLUME WHILST MORE CLOSELY INTEGRATING THE OPERATING COMPANIES IN OUR CARAT MEDIA PLANNING AND BUYING NETWORK. OUR NEW EXECUTIVE TEAM HAS DEVELOPED A VERY CLEAR PLAN FOR THE FURTHER DEVELOPMENT OF THE GROUP.

Results for 1994 show a return to profit. Group turnover is up 8% on 1993 as a result of continued growth. However, gross income has decreased by £3.3 million. This decline is largely attributable to the income earned in France up to April 1993 prior to the introduction of the Loi Sapin. The Loi Sapin became law on 31 March 1993. It changed the structure of the French advertising market by ruling that advertising agencies and media buyers could only receive income from (or with permission from) their clients.

Pre-tax profits are £20.1 million. Underlying profits were £27.4 million but, offsetting this, a charge of £7.3 million was made to cover doubtful debts in Spain and the final stage of restructuring. This is stated net of the refund of a fine levied by the Conseil de la Concurrence in France.

We are continuing our progress towards achieving the goals which we set ourselves at the time of the 1993 refinancing and are successful on the new business front with net annualised gains of US$482 million.

As a consequence of the 1993 refinancing and restructuring, it became evident that moving the corporate headquarters from Paris to London would make for greater efficiency. We have therefore relocated and also consolidated our French operating companies to new and less expensive premises in La Défense in Paris.

Corporate governance

Aegis has developed rapidly as a pan-European group. With its senior management now in the UK, we are following a policy of complying as fully as appropriate with the UK's Corporate Governance guidelines. We have a balanced Board with 8 non-executives and 6 executive directors. The roles of non-executive Chairman and Chief Executive Officer are separate. We have independent Audit and Remuneration Committees composed entirely of non-executives.

When our headquarters were located in France, the Takeover Panel informed us that we did not come under its jurisdiction. Now that we have moved headquarters, management and staff back to the UK, we approached the Panel and I am happy to inform shareholders that the Panel has confirmed that the City Code does now apply to the Company.

Management

In October Crispin Davis joined us as Chief Executive Officer. His background and experience will serve the Group well, giving it a new impetus. Crispin took over from Charles Hochman when he retired as Chief Executive Officer. I would like to take this opportunity to thank Charles, on behalf of the Board and shareholders, for his efforts and leadership during the very difficult period of the refinancing and reorganisation.

In February 1995 Colin Day joined us as Finance Director and in March Brian Jacobs started as Media Development Director. These appointments largely complete the new central executive team.

Also during 1994, we strengthened the Board with the appointment of Kai Hiemstra, the founder of our German business, HMS Carat.

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The new management is implementing a final phase of restructuring now that the full impact of the Loi Sapin is clear, the network's future strategy has been set and the appropriate size and scope of the head office team has been agreed. The main elements of this final phase are a reorganisation of the operating activities both locally and at the centre including the move of the head office to London. There is also provision for certain property and legal matters.

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1995 has started well for the group. Turnover, gross income and operating profits for the first two months are all up on last year.

In the first two months of 1995 the annual value of new business wins was US$88 million.

Accounts won in January and February include Bosch and Sara Lee.

Dividend

In line with the policy outlined last year there is no final dividend payable for 1994. The Board has decided, given the cash cost of the final phase of restructuring, that there will be no ordinary dividend paid or recorded in 1995.

Conseil de la Concurrence

I am pleased to report that the fine of 35 million French Francs (£4.1 million) which had been imposed on Carat France by the Conseil de la Concurrence (the French competition authority) in February 1994 was cancelled by the French Court of Appeal in December. Although we have recently been advised that the Conseil is recommencing proceedings, your Board remains confident that this will not give rise to any profit exposure.

The Future

Aegis has succeeded in adapting to major changes in its markets whilst establishing its European network. The financial structure has been brought into line with the new market conditions.

We now have a strong central management team in place and a clear and tightly defined strategy for the future. I believe that Aegis is now well positioned to achieve growth in the years ahead.

I want to thank the Aegis and Carat staff and our professional advisers for helping see this Group through a difficult time. I am confident that the Group is now based on firm foundations and expect the new team to achieve the success that shareholders have every right to expect.

Chairman

Chief Executive's review

HIS IS MY FIRST REPORT TO SHAREHOLDERS SINCE BECOMING CHIEF EXECUTIVE IN OCTOBER OF LAST YEAR.

I FOUND A GROUP THAT HAD BEEN THROUGH DIFFICULT TIMES AND WHERE, DESPITE EXTENSIVE EFFORTS, RESULTS HAVE BEEN CLEARLY UNSATISFACTORY. SIGNIFICANT LOSSES HAD BEEN POSTED IN THE PRECEDING TWO YEARS RESULTING FROM LARGE PROVISIONS FOR RESTRUCTURING. THESE WERE NECESSARY TO OVERCOME RADICALLY DIFFERENT TRADING CONDITIONS IN THE FRENCH MARKET AND TO CONVERT A SERIES OF LOCAL COUNTRY ACQUISITIONS INTO A COHESIVE OPERATING NETWORK.

MUCH OF THE IMPORTANT RESTRUCTURING HAS NOW BEEN DONE AND A POWERFUL NETWORK IS LARGELY IN PLACE. FURTHER IMPORTANT ACTIONS ARE CURRENTLY BEING IMPLEMENTED TO COMPLETE THE PROCESS.

THE WORST IS FIRMLY BEHIND AEGIS. THE FUNDAMENTALS ARE SOUND, THE CORE BUSINESS IS PERFORMING SATISFACTORILY AND I BELIEVE THE GROUP IS NOW WELL POSITIONED FOR FUTURE GROWTH.

From 1988 through to 1992 Aegis undertook a series of acquisitions of leading media buying companies throughout Europe. These companies had different operating systems, strengths, weaknesses and cultures and all were merged into a single operating network.

In developing the Carat network Aegis was creating a new industry. Carat devised many of the techniques which are now basic to the business of media planning and buying. Many other organisations now follow our lead.

However the Group's acquisitions were expensive, in terms of both investment and management time. These problems were compounded by the assumption that the high level of profits previously enjoyed in France, which once accounted for more than 80% of Group profits, could be sustained. The network, and indeed the whole financial structure, was built on this premise.

In April 1993 the French Government introduced a new law, the Loi Sapin, which radically changed the structure of the media industry in that country. Media buyers in France can now only be remunerated on a fee basis and any trading in media is not permitted. This significantly changed the industry and vastly reduced French profits.

Confronted by a massive fall in income and a high level of debt, the Aegis Board reacted

Carat has offices in 37 cities in 18 countries across Europe

by putting in place an aggressive programme of cost reduction, swapping debt for equity and raising £60 million of new equity in October 1993.

This past year has seen the Group stabilise its position against a background of the consequences of the Loi Sapin in France and continuing economic pressure across Europe.

Billings have increased significantly over 1993 up by 9% compared with an overall market increase of 5%, reflecting our continuing strength as market leaders. There were a number of significant client gains in 1994 including Asda, Levi Strauss, Philip Morris, Reckitt & Colman and the Volkswagen Group. This maintains the trend of the past few years where, despite the many challenges facing the Group, we have seen consistent growth in billings.

Performance in most countries shows significant improvement over 1993. Results in northern Europe, particularly Germany, UK, and Scandinavia, were very strong.

In contrast, France fell below expectations as it continued to adapt to the new post-Sapin environment. 1994 margins were lower than originally anticipated although there are indications now that conditions are stabilising at a level broadly in line with the rest of Europe.

Operating results in Spain were strong but were undermined once again by sizeable bad debt provisions. We have instituted an intensive programme to change business practices there and have instigated stringent control mechanisms to prevent reoccurrence.

Gross margins for 1994 are down from 5.6% to 5.0%. This decline is entirely due to France and the effect of the Loi Sapin. On a like for like basis margins were maintained, a reasonable performance in a tough market environment. Nevertheless, it is clearly a priority now to stabilise and progressively to rebuild margins for the future.

In total, 1994 shows a return to profit. Underlying operating profits before interest were £30.5 million. This compares with £33.2 million for 1993 which benefited significantly from one quarter of pre-Sapin trading in France. To counter these lost earnings, costs have been cut severely in France, and the 1994 results reflect the new lower cost base, together with improved trading elsewhere.

Against this we have a net interest expense of £3.1 million and a net charge of £7.3 million for Spain bad debts and reorganisation, offset in part by the refund of the Conseil fine. This brings the net result before taxation for 1994 to £20.1 million versus a net loss in 1993 of £18.1 million. Fuller details are given in the Finance Director's Report.

Final restructuring

In recent months it has become obvious that, despite very substantial progress, the Group's restructuring efforts were not quite complete and that a final push was required. We recognise this is difficult to accept in the light of prior year charges, but the Board is convinced these final actions are right and necessary for the long-term health of the business.

We have therefore included in the accounts for 1994 a charge of £9.1 million. This is for the reorganisation of the head office and its move back to the UK and for further streamlining of local operations and management changes there. Also included are charges to cover expenses for outstanding US litigation and burdensome UK surplus property obligations. We have also made a

Because of the sheer volume of media that we handle, Carat is in a strong position (perhaps the stongest) to understand the media market and get the best from media owners.

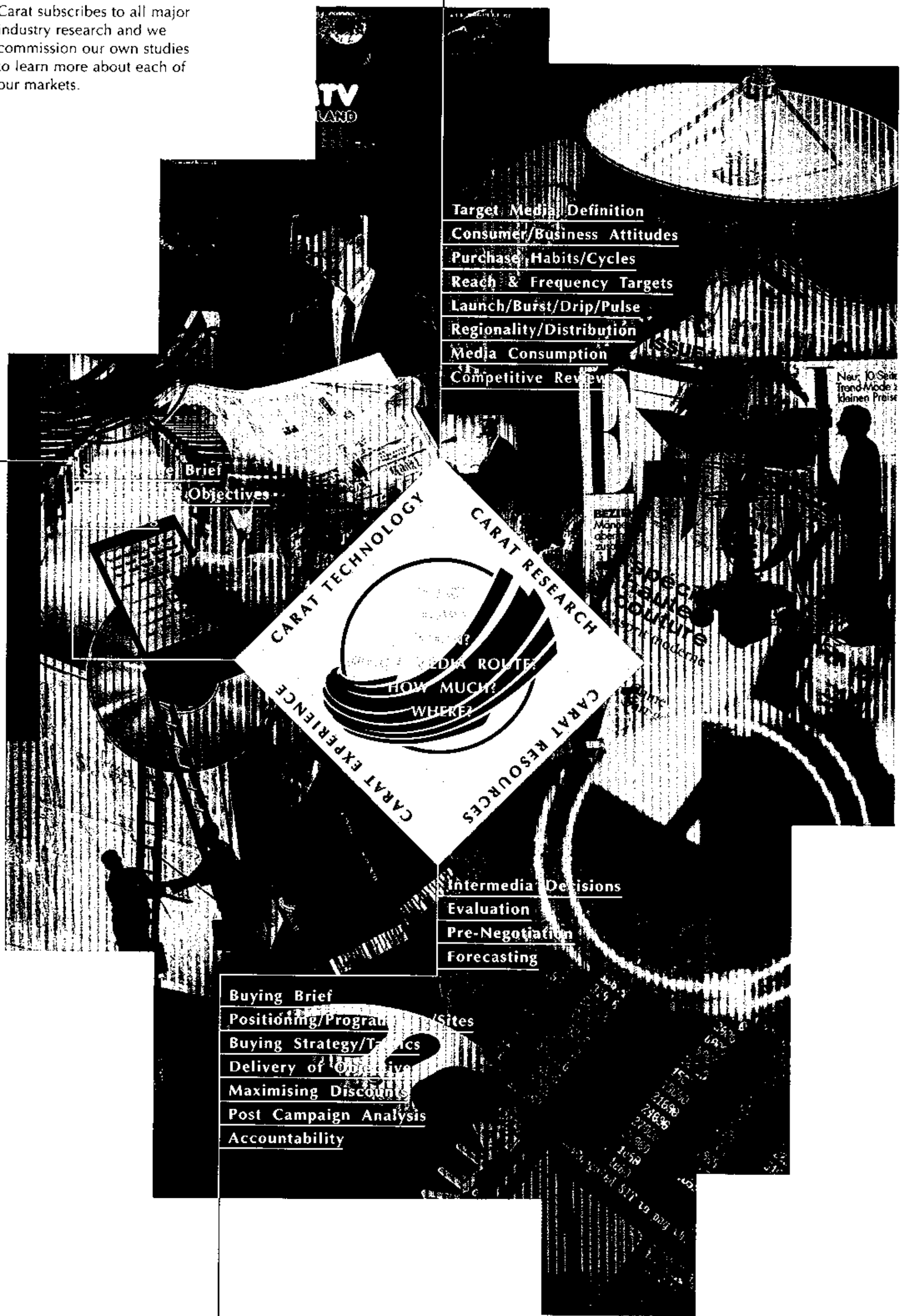
Because we are a large network, we have enormous resources to put at our clients' disposal, yet because each of our companies is locally managed, we are extremely flexible.

MEDIA EXPERTISE

Carat subscribes to all major industry research and we commission our own studies to learn more about each of our markets.

Carat has developed its own tools and systems to help clients develop and maintain an edge over competition. Our systems and technology allow us to make confident recommendations and offer a rapid and accurate response to clients' requests

COMMUNICATION STRATEGY



SUPERIOR MEDIA VALUE

special review of the Spanish books in light of our refocus on better quality clients and have established a charge of £2.3 million for doubtful debts. Partially offsetting these costs is the refund of the fine levied by the Conseil de la Concurrence in France (£4.1 million).

With these charges, the extensive and painful restructuring of the past three years is over. There is now a strong and stable operating base in place from which to move forward.

I believe the fundamentals are now supportive of such progress. Specifically:

The growth of media specialists continues. They now account for over 60% of the European media market, compared to 49% five years ago and 21% ten years ago. This is a reflection of genuine client needs for focused and superior resources in an increasingly complex and sophisticated media world. We see early indications of similar growth opportunities for the media specialist outside Europe.

Carat has clear leadership of the total European display advertising market, with an 11% share, almost double that of our nearest competitor. This provides real benefits in terms of resources, buying power, cost efficiencies and expertise.

Carat has an unrivalled network across Europe, with the Number 1 or 2 position in all major markets and a physical presence in nearly all European countries including Central and Eastern Europe. All operating units are fully or majority owned and working as an integrated network.

Increasingly focused on media strategy, planning and related services, the Carat product is, I believe, superior to our competition across Europe. This reflects not only the extensive facilities but also our in-depth local knowledge built on market expertise and insights.

Our portfolio of clients is one of significant quality and strength. International clients now account for 34% of billings, versus 5% five years ago. We have averaged billing increases of US$350 million per year for the last five years, despite the European recession, a performance well ahead of the market.

We have established the following five strategic priorities for the Group. Management is committed to achieving these priorities.

1) **Improvement and expansion of services to our clients.** Our capability to deliver a demonstrably superior "product" will clearly influence billings and margin growth more than any other factor. We plan increased strategic emphasis on moving our services "upstream", focusing more on strategy and planning, research and data driven

services, and capitalising on the potential of new areas of developing technology.

2) **Expansion from a European to a more global network.** This will be client driven as our international clients increasingly adopt global strategies and supplier partnerships. Our goal is to build on Carat's powerful European leadership position and to turn it into a truly global brand. We will achieve this through a carefully researched and controlled process according to an appropriate timescale. We have started investigative/analytical work to determine the best geographical and client opportunities.

3) **Continued strengthening of our client base.** We must maintain the strong momentum of recent years. We will look for partnerships with major national and international clients who demand and benefit from the full range of services we provide. We target international clients to account for a substantially increased share of our billings over the next several years.

4) **Strengthened organisational capability.** Ultimately the strength of this business – and our results – will be only as good as our organisation. Our goal is to be recognised by our clients and the industry as being the highest quality and most effective organisation in the industry. A number of major initiatives are being instigated to achieve this; upgrading and reorganising our head office, introduction of personal objective and measurement programmes, launching a group incentive scheme and formation of a senior executive committee. These, and many others, will yield increasing rewards in the years ahead.

5) Success in the above priorities will lead to achievement of our overriding objective: **sustainable, strong earnings growth.** Continued increases in billings, enhanced margins and stronger emphasis on cash generation to reduce debt will be the key factors.

During the last two years we have taken most of the tough and difficult decisions necessary to restructure and renew the Group. I believe we have now created a firm base on which the business can grow and profitability can be enhanced. The fundamentals are sound and the strategic priorities are clear. Management is now able to be single-minded in its pursuit of improved profit performance and is dedicated to achieving its clearly stated objectives.

Crispin Davis

Chief Executive

THE UNDERLYING RESULTS REFLECT THE SIGNIFICANT REDUCTION IN GROSS INCOME RESULTING FROM THE INTRODUCTION OF THE LOI SAPIN IN FRANCE AT THE END OF THE FIRST QUARTER OF 1993. THIS HAS BEEN OFFSET BY TURNOVER GROWTH, COST REDUCTIONS IN LINE WITH OUR RESTRUCTURING PLANS AND LOWER NET INTEREST COSTS DUE TO OUR SUCCESSFUL REFINANCING IN OCTOBER 1993.

Billings offer a good indication of market share as they represent the annualised value of media purchased on behalf of clients and are regularly monitored by third party data collection companies. By convention they are expressed at a constant US$ exchange rate and represent the value of advertising space and time bought by Carat on behalf of our clients.

The Group's billings (the value of advertising handled by the Carat network) have increased by 9% from US$5.4 billion in 1993 to US$5.8 billion in 1994. This is ahead of market growth of 5%. Our billings reflect continued growth, despite the resignation of certain unprofitable client accounts, particularly in Spain.

In 1994 the European display advertising market recorded billings of some US$52.2 billion which gives Carat a market share of 11%.

Turnover reflects those media purchases that go through the books of Carat, plus fees and commissions arising from advertising budgets managed by Carat but where the client (the advertiser) pays the media directly, as is common in Italy.

Group turnover in 1994 was £2,970 million, 8% up on last year. This increase principally arises from strong growth in the United Kingdom (29%) and Germany (16%). Volumes in France have stabilised, whilst recessionary pressures and the resignation from unprofitable clients have had an adverse impact in Spain of 2%.

Gross Income

This is the income received by Carat in fees and commissions.

1993 gross income of £152.9 million (5.6% of turnover) includes one quarter of pre-Sapin trading in France and this is the main reason for the decline to £149.6 million (5.0% of turnover). Outside France, margins were stable.

Operating costs

Our 1993 restructuring plans have largely been implemented resulting in a reduction in operating costs in 1994 from 4.4% to 4.0% of turnover. This is primarily due to savings achieved in France to realign the cost base with the reduced level of income.

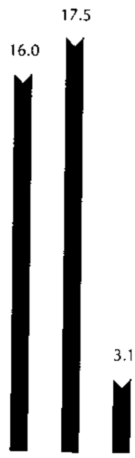
The operating cost reduction has been achieved despite higher trading volumes and a relatively stable Group head-count. The value of billings handled per head of staff has risen by 9%.

Foreign exchange

Whilst Group profits have benefited from the strengthening against the Pound of currencies in France and Germany, a net adverse currency impact of £0.4 million on underlying profit before tax has arisen due to weaker currencies, principally in Spain and Italy.

BILLINGS
US$'m

OPERATING EXPENSES
as % of turnover



NET INTEREST
£'m

Net interest expense

Net interest expense of £3.1 million is significantly reduced following the successful refinancing at the end of 1993. Average net debt was £40.0 million compared to £75.0 million in 1993. As anticipated in the 1994 Interim Statement, net interest costs increased in the second half of the year due to the timing of cash outflows.

Reorganisation and Conseil

Net charges totalling £7.3 million have been recorded in 1994. These are in respect of Spain bad debts and reorganisation, net of the refund of the Conseil fine.

£2.3 million is attributable to provisions made as a result of the special review of Spanish debts. Following this review, methods of evaluating client credit risk have been significantly upgraded, new control systems implemented and our client list reviewed. The business is being refocused on more profitable, higher quality clients. Whilst economic and trading conditions continue to be difficult in this market, the steps taken should create a sound platform upon which the business can be expanded.

In order to complete the repositioning of the Group to meet both evolving market needs as well as to ensure a firm base for 1995, a detailed review of the ongoing restructuring programme, started in 1993, has been carried out. This has resulted in a further charge of £9.1 million primarily to reorganise local and head office activities. It includes a provision to cover certain surplus property obligations and the continuing litigation in the United States.

These costs are partially offset by the refund of the £4.1 million fine levied by the Conseil de la Concurrence.

Net income of £13.1 million was achieved after a tax charge of £5.0 million (25%) and minority interests of £2.0 million. This is a significant improvement over 1993 (loss of £29.0 million) despite the need for a final reorganisation charge as outlined above.

The tax charge reflects the utilisation of losses arising from prior year restructuring costs. Whilst accumulated tax losses will continue to benefit the Group in the near future, tax planning opportunities are being actively explored to ensure that the effective future tax rate is minimised.

Minority interests have reduced by £3.4 million, principally due to the acquisition of a further 30% of our Spanish business in July 1994 and the exercise by the Belgian minority shareholders of their put option in November 1994.

Basic earnings per share of 1.6 pence has improved from a loss of 12.1 pence in 1993 and underlying earnings per share shows a 32% increase from 1.9 pence to 2.5 pence. On a fully diluted basis, earnings per share is 1.4 pence.

The deficit reflected in the 1993 Company Profit and Loss Account of £205.4 million, arising from write-downs of certain Group investments and receivables, created a significant obstacle to the future distribution of profits. To address this issue, the Company obtained High Court approval for the transfer of part of the credit on the Share Premium Account to a Special Reserve from which £205.4 million was transferred to the Profit and Loss Account.

The Group has central banking facilities of £124 million of which £16 million matures later in 1995 and the remainder within five years. In addition, agreement was reached in March to replace and extend the facilities required for media guarantees that were due to expire in June 1995.

Whilst underlying operating cash flows were positive, significant non-operating cash outflows relating to prior year restructuring charges and the buyout of minority interests resulted in an increase in net debt from £5.8 million to £29.2 million.

Interest cover of 4.3 times compares favourably with 1993: 2.3 times. This is a direct result of the refinancing undertaken at the end of 1993.

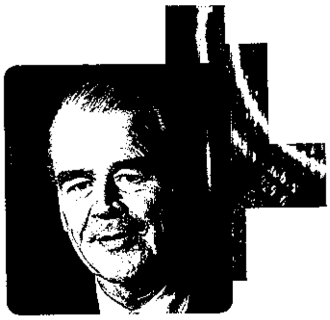
The Group continues to reduce the outstanding deferred payments due to vendors regarding prior year acquisitions. Fixed obligations of £5 million at 31 December 1994 compare with £8 million in 1993.

In addition there are certain minority put options, the cost of which varies with the profit performance of acquired companies and which are exercisable up to 2005. The Directors estimate these to total a maximum of £6.5 million (1993: £20.0 million).

Treasury management will be a primary focus for Aegis in 1995. A Group Treasurer was recently appointed to assist with this objective.

We are in the process of finalising the team and continue to strive to improve the standard of financial control and reporting throughout the Group.

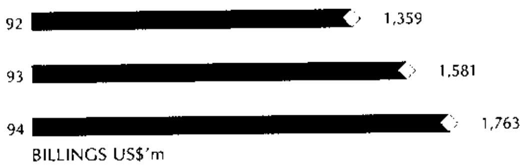
Group Finance Director



Germany and Eastern Europe

HMS Carat has strengthened its position as market leader in Europe's largest display advertising market. Whilst advertising volume in Germany grew by 7%, the billings of HMS Carat grew by 12% over 1993. This growth comes from additional business from existing clients and from new clients. Major new business wins in 1994 included Audi, Seat, Skoda and Levi Strauss. Additional assignments came from Ferrero, Kellogg's, Miele and, of course, the Volkswagen Group.

Carat subsidiaries in Vienna, Budapest, Prague and Warsaw are developing well. The value of media billings handled by Carat in these markets now exceeds US$65 million.



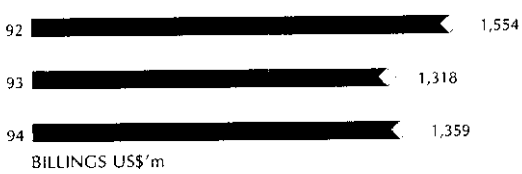
France

1994 saw the French advertising market stage a slight recovery growing by some 4%. 1993 showed a significant decline caused by the combined effects of the Loi Sapin and a severe economic recession.

Carat France grew its billings by 3% and maintained its leading position with a market share of 17%. Major new business came from Clarins, DHL, Douwe Egberts, Seat and the Volkswagen Group. These offset the loss of the Colgate account.

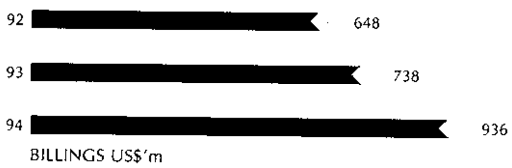
Following implementation of the Loi Sapin indications are that margins are stabilising at levels similar to those achieved in our other operations.

France has undergone a difficult transition over the past two years: however, costs have been cut in line with the fall in income.



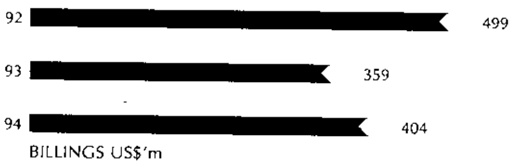
In 1994 the UK advertising market grew rapidly, showing growth of 9% on 1993. Advertisers exhibited a greater degree of confidence than for some years, despite the continued caution of consumers and the low growth in retail spending.

Carat UK enjoyed another year of extremely strong growth with billings in 1994 up by 27% on 1993. A significant factor in this was the major new business gains made late in 1993. This run of success continued into 1994 with gains including Asda, Reckitt & Colman and the Volkswagen Group. Carat UK now has an 11% market share and continues to gain ground on the market leader.



The Italian economy recovered in 1994 with GDP rising by 2%. However display advertising decreased by 1% which represents a substantial fall in real terms after inflation. This resulted mainly from advertisers switching spending to promotional activity.

By contrast, Carat Italia's billings grew by 12%, helped by the win of major new clients including Philips, Sterling Midy, Sammontana, the Volkswagen Group and Zuegg. In addition, the subsidiaries in Florence and Bologna which were established in 1993, made a significant contribution for the first time.

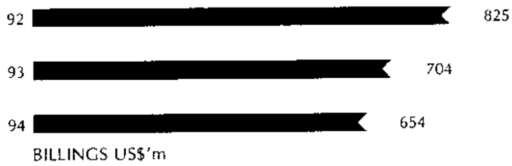


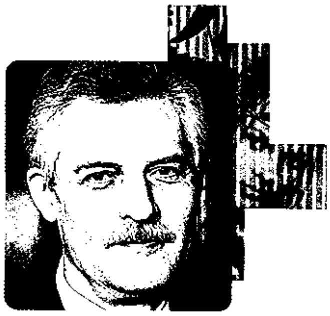
The Spanish advertising market remained weak in 1994, registering a decline in value of 3%. The economic environment continues to be very difficult and all media reduced available space and time except television.

Against this background, Carat España lost billings of 5%. This decrease was due to the significant slowdown in client activity and the resignation of some lower quality accounts. Major new client wins affecting the 1994 figures were Reckitt & Colman and the Volkswagen Group. The gains of Agfa and Philip Morris will have an impact during 1995.

A fundamental objective for the Spanish business is to upgrade its business practices and controls. Improvements in the client portfolio have already been initiated and this process will continue in 1995.

In Portugal the market continued in a state of flux. Carat Portugal has remained steady with a 3% market share.



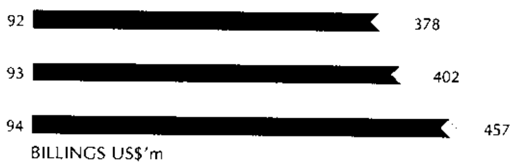


Carat Scandinavia, which brings together our operations in Denmark, Finland, Norway and Sweden, remains the clear market leader in the region and enjoyed billings growth of 14% in the year.

We continue to develop region-wide client relations with 15 clients now served on a pan-Scandinavian basis as compared with just one in 1990. Major new clients last year included Bang & Olufsen, Alberto Culver, DFDS Scandinavian Seaways and Mölnlycke.

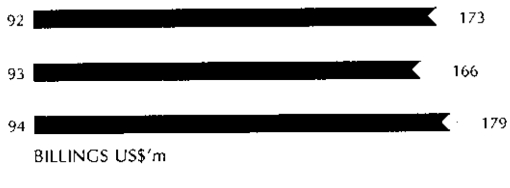
In Denmark billings increased by 12% and Carat gained market-share in the fastest growing economy in the European Union. The Finnish economy has finally come out of recession with advertising showing growth of 7% after several years of decline. Carat Finland grew by more than 40%, albeit from a small base.

In Norway, Carat remains the clear market leader with a share of 24% and during 1994 billings grew by 6%. In Sweden our billings grew by 16% and the Company is benefiting from the explosive growth of commercial TV at the expense of the print media.



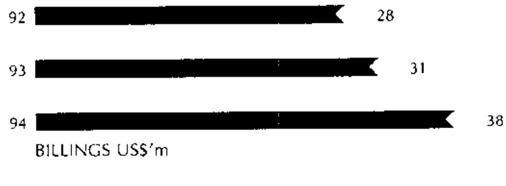
Carat Crystal maintained its position as market leader by growing its billings by 8% in a market which grew by 5%. New clients won during the year include Credit Lyonnais, EMI/Virgin and Vittel.

Belgian television has been significantly expanded with the launch of two new channels. This is likely to lead to increased audience fragmentation and additional opportunities for advertisers.



Carat Hellas grew its billings by 24% and increased its market share in a market which itself grew by 16%. Major new clients included Delta (a Greek dairy products group) and Beiersdorf.

Carat Hellas was one of the first media specialists in Greece and many advertising agencies have now unbundled their services leading to a rapid growth in the media specialist sector. An industry survey of advertisers, reported in November 1994, shows Carat Hellas to be, by far, the best known and best regarded of the specialists.



Carat Nederland is showing the benefits of the 1993 reorganisation and is making progress towards achieving satisfactory profitability. Ten new clients were won in 1994, going some way to replace the large number of accounts resigned in 1993. Carat Nederland, under its new management team, appears well positioned for the future.

The Group client development team has the dual responsibility of attracting new international clients into the Carat network and also providing a central account management and co-ordination service for existing international clients (those clients who operate across several countries within the Carat network).

The success of the Group client development team is reflected in the Group's new business gains. Group billings have increased by an average of US$350 million per year over the past five years, well ahead of market growth. A substantial amount of this increase is attributable to international clients. Recent successes include the Volkswagen Group, Reckitt & Colman and Mölnlycke.

As the Carat network expands, international clients are of increasing importance and Group client development is evolving to meet this need. The department has recently been strengthened to further enhance client service. Separate functions have been set up for new clients and existing international clients and there is now a team of international client co-ordinators based in London, Paris and Frankfurt.

Board of directors

non-Executive Deputy Chairman

non-Executive Director

non-Executive Director

Honorary President
(not a Director of Aegis
Group plc)

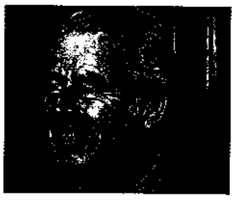
non-Executive Deputy Chairman

non-Executive Director

non-Executive Director

non-Executive Director

Executive Director
HMS Carat



Executive Director
Carat UK

Group Finance Director

Executive Director
Carat France

Executive Director
Carat France

Chief Executive Officer

non-Executive Chairman

Directors and advisers

Frank S Law, CBE (non-Executive Chairman)
John L Vogelstein (non-Executive Deputy Chairman)
Charles Hochman (non-Executive Deputy Chairman)
Crispin Davis (Chief Executive Officer)
Colin Day (Group Finance Director)
Gilles Gobin (non-Executive)
Raymond F Kelly
Bruno Kemoun
Kai Hiemstra
Sir Kit McMahon (non-Executive)
Fred J Meyer (non-Executive)
Eryck Rebbouh
Dominic H Shorthouse (non-Executive)
Sir Peter Thompson (non-Executive)

Elizabeth A Richardson

2 Eaton Gate
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Tel: 0171 730 1001
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1403668 (England and Wales)

Solicitors
Slaughter and May
35 Basinghall Street
London EC2V 5DB

Bankers
Samuel Montagu & Co Limited
10 Lower Thames Street
London EC3R 6AE

Stockbrokers
Hoare Govett Corporate Finance Limited
4 Broadgate
London EC2M 7LE

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

Auditors
Price Waterhouse
Southwark Towers
32 London Bridge Street
London SE1 9SY

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

Report of the directors

The Directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 1994.

Results and dividends
The profit and loss account is set out on page 32 and shows a retained profit for the financial year of £13.1 million.

The Directors do not propose to pay a final dividend for the year. There is accordingly no ordinary dividend paid in 1994 (1993: £nil).

The retained profit for the financial year of £13.1 million is transferred to reserves.

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.

Fixed assets
Information relating to changes in tangible fixed assets is given in note 13 to the financial statements.

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 £10.7 million (1993: £10.4 million) on research and development.

Directors' and officers' liability insurance
During the year the Company has maintained insurance in respect of its Directors and Officers against certain liabilities that may arise in relation to their positions within the Group.

Donations
The Group made charitable donations of £6,513 (1993: £15,780) during the year in the United Kingdom. There were no political donations during the year in the United Kingdom (1993: £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.

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 in note 9 to the financial statements.

The Board is not aware of any contract of significance in relation to the Company or its subsidiaries in which any person who was a Director during the year has, or has had, a material interest.

Going concern
In accordance with The Cadbury Committee's Code of Best Practice it is recommended that the Directors make a statement of their assessment of the ability of the Group to continue in operational existence as a going concern.

After making enquiries, the Directors have a reasonable expectation that the Group has 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.

Substantial shareholdings
In accordance with the requirements of the London Stock Exchange as at 5 May 1995, the following interests in the issued ordinary shares of 5p each of Aegis Group plc are noted:

Carat Vendors	12.5%
Affiliates of Warburg, Pincus & Co	32.4%
Omnicom Group Inc	9.2%

The Carat Vendors comprise the holdings of SFEC II, SCP Lagoon, Gilbert Gross and Florence Gross.

Share capital
Details of the movements in authorised and issued share capital during the year are given in note 20 to the financial statements.

At the Annual General Meeting resolutions will be proposed to authorise the Directors to allot securities in the Company. Resolution 9 provides the Directors with authority to allot securities in the Company up to an aggregate nominal value of £12,077,942. If passed, the resolution will enable the Directors to allot a maximum of 241,558,840 ordinary shares which represent 29.5% of the current issued ordinary share capital as at 12 April 1995, 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 9. Resolution 10 is a special resolution disapplying pre-emption rights and granting authority to the Directors, without the need for further specific London Stock Exchange or 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 £2,036,000. The authority conferred by resolution 10 is limited as regards issues of shares other than by way of rights issues to 40,720,000 ordinary shares amounting to approximately 5% of the issued ordinary share capital of the Company as at 12 April 1995. In relation to the exercise of this authority the Company will have regard to the guidelines published by the investment committees of both the Association of British Insurers and the National Association of Pension Funds. 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 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 40,889,000 ordinary shares (approximately 5% of the present issued ordinary share capital) at the forthcoming Annual General Meeting.

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 ten 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. If granted the Directors will only exercise the authority if to do so would result in an increase in earnings per share and if it is in the best interests of shareholders generally.

Close company status
The Directors have been advised that the Company is not a close company within the provisions of the Income and Corporation Taxes Act 1988.

Auditors
A resolution to re-appoint Price Waterhouse as auditors will be proposed at the Annual General Meeting.

Directors' responsibilities
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 and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time 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 are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

Elizabeth A Richardson
Secretary
2 Eaton Gate
London SW1W 9BL

5 May 1995

Consolidated profit and loss account

for the year ended 31 December 1994

	Notes	Underlying 1994 £'m	Reorganisation and Conseil fine refund 1994 £'m	**Total 1994 £'m**	Total 1993 £'m
Turnover	2	2,969.9	—	**2,969.9**	2,748.4
Cost of sales		(2,820.3)	—	**(2,820.3)**	(2,595.5)
Gross income		149.6	—	**149.6**	152.9
Operating expenses:					
– normal		(119.1)	—	**(119.1)**	(119.8)
– reorganisation costs	3	—	(11.4)	**(11.4)**	(26.3)
– refund of fine levied by the Conseil de la Concurrence	4	—	4.1	**4.1**	(4.2)
– refinancing costs		—	—	—	(3.3)
Share of profit from associated undertakings		—	—	—	0.1
Operating profit/(loss)		30.5	(7.3)	**23.2**	(0.6)
Interest receivable		5.7	—	**5.7**	5.2
		36.2	(7.3)	**28.9**	4.6
Interest payable and other items:	6				
– interest payable		(8.2)	—	**(8.2)**	(16.3)
– amortisation of refinancing costs		(0.6)	—	**(0.6)**	(0.2)
– quasi interest payable		—	—	—	(6.2)
Profit/(loss) on ordinary activities before taxation	8	27.4	(7.3)	**20.1**	(18.1)
Tax on profit/(loss) on ordinary activities	10			**(5.0)**	(5.5)
Profit/(loss) on ordinary activities after taxation				**15.1**	(23.6)
Minority interests				**(2.0)**	(5.4)
Profit/(loss) for the financial year				**13.1**	(29.0)
Dividends:	11				
– preference				—	(0.3)
– ordinary				—	—
Retained profit/(loss) for the financial year				**13.1**	(29.3)
Earnings per share:	12				
– **Basic**				**1.6p**	(12.1)p
– Reorganisation costs and Conseil fine				**0.9p**	12.6p
– Refinancing costs				—	1.4p
– Underlying				**2.5p**	1.9p
– **Fully diluted basic**				**1.4p**	—

Underlying operations represent ordinary activities excluding reorganisation and Conseil fine refund. All activities during 1994 were continuing.

Consolidated statement of total recognised gains and losses
for the year ended 31 December 1994

	1994 £'m	1993 £'m
Profit/(loss) for the financial year	**13.1**	(29.0)
Exchange adjustments on foreign currency net investments	**(4.1)**	3.5
Total recognised profit/(loss) for the financial year	**9.0**	(25.5)

Reconciliation of consolidated movements in shareholders' funds
for the year ended 31 December 1994

	Group		Company	
	1994 £'m	1993 £'m	1994 £'m	1993 £'m
Profit/(loss) for the financial year	**13.1**	(29.0)	**5.3**	(221.3)
Preference dividends	**—**	(0.3)	**—**	(0.3)
Exchange adjustments	**(4.1)**	3.5	**—**	—
Conversion, issue and redemption of shares (net of expenses)	**2.1**	161.9	**2.1**	161.9
Goodwill written off in the year	**(8.3)**	(19.2)	**—**	—
Revaluation of subsidiary undertakings	**—**	—	**—**	(5.3)
Net increase/(decrease) in shareholders' funds	**2.8**	116.9	**7.4**	(65.0)
Shareholders' funds at 1 January	**(117.9)**	(234.8)	**124.5**	189.5
Shareholders' funds at 31 December	**(115.1)**	(117.9)	**131.9**	124.5

Goodwill written-off in the year arises principally as a result of the acquisition of a further 30% of Carat España and the purchase of the outstanding minority interests in Carat Crystal, Belgium.

Note of historical cost profits and losses
for the year ended 31 December 1994

There is no material difference between the reported result for 1994 and 1993 and the result for those years restated on an unmodified historical cost basis.

Notes to the consolidated cash flow statement
for the year ended 31 December 1994

	1994 £'m	1993 £'m
Analysis of net cashflow from operating activities		
Operating profit/(loss)	**23.2**	(0.6)
Share of profit from associated undertakings	**—**	(0.1)
Depreciation of tangible fixed assets:		
– regular	**6.1**	7.2
– accelerated	**—**	8.0
(Profit)/loss on sale of tangible fixed assets	**(0.1)**	0.5
(Increase)/decrease in debtors	**(53.7)**	171.6
Increase/(decrease) in creditors	**26.9**	(112.3)
Other non cash movements including foreign exchange	**(4.4)**	1.7
Net cashflow from operating activities	**(2.0)**	76.0

	1994 £'m	1993 £'m
Analysis of changes in cash and cash equivalents		
Balance at 1 January	**20.6**	(10.5)
Net cash (outflow)/inflow	**(14.9)**	31.1
Balance at 31 December	**5.7**	20.6

	1994 £'m	1993 £'m	Change in year £'m
Cash, bank and loan balances comprise:			
Cash at bank and in hand	**44.4**	56.8	**(12.4)**
Bank loans and overdrafts due within one year	**(38.7)**	(36.2)	**(2.5)**
Cash and cash equivalents	**5.7**	20.6	**(14.9)**
Bank loans due after more than one year	**(34.9)**	(26.4)	**(8.5)**
Net indebtedness	**(29.2)**	(5.8)	**(23.4)**

Comparative amounts have been restated to show only bank loans repayable within three months as cash equivalents as required by Financial Reporting Standard No. 1.

Analysis of changes in financing during the year	Bank loans due after more than one year 1994 £'m	Bank loans due after more than one year 1993 £'m	Share capital (including premium) 1994 £'m	Share capital (including premium) 1993 £'m
At 1 January	**26.4**	57.7	**316.7**	152.5
Cash inflows from financing:				
– equity	**—**	—	**—**	36.6
– non-equity	**—**	—	**—**	15.0
Issue of equity shares in respect of prior period acquisitions	**—**	—	**2.1**	0.7
Redemption of non-equity share capital	**—**	—	**—**	(0.2)
Other non-cash equity share issues	**—**	—	**—**	120.3
Other non-cash redemption of non-equity shares	**—**	—	**—**	(7.1)
Refinancing costs charged to share premium account	**—**	—	**—**	(1.1)
Reduction in share premium account allocated to:				
– profit and loss account	**—**	—	**(205.4)**	—
– special reserve	**—**	—	**(27.9)**	—
Additional amounts borrowed	**11.4**	26.4	**—**	—
Repayments of amounts borrowed	**(2.3)**	(54.9)	**—**	—
Transfers to amounts due within one year	**(5.9)**	—	**—**	—
Movements on offsetting cash balances	**3.2**	—	**—**	—
Foreign exchange	**2.1**	(2.8)	**—**	—
At 31 December	**34.9**	26.4	**85.5**	316.7

1 Principal accounting policies

The financial statements have been prepared under the historical cost convention as amended for the revaluation of the Company's fixed asset investments and in accordance with applicable accounting standards adopting the following principal accounting policies:

Basis of consolidation
The consolidated financial statements incorporate the financial statements of Aegis Group plc and its subsidiary undertakings from the date of acquisition up to 31 December 1994. All significant inter-company balances and transactions are eliminated. The Group's results also include its share of attributable profits/(losses) of associated undertakings made up to 31 December 1994.

Goodwill
Goodwill, including any additional goodwill arising from the contingent capital payments set out in note 23, is written off against reserves in the year in which it arises.

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

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.

Turnover
For statutory purposes turnover represents the value of media handled on behalf of clients. In the 1993 statutory accounts it was noted that legislation, the Loi Sapin, had been implemented on 31 March 1993 regulating the way advertising time and space is bought and sold in France and requiring all advertising intermediaries to adopt the legal status of "agent". As an agent, our French operation earns commissions and fees based on media purchased.

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

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

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

Freehold buildings	3% per annum
Leasehold buildings	Over the period of the lease
Leasehold improvements	10% per annum
Office furniture, fixtures, equipment & vehicles	10 – 25% per annum

Investments in subsidiaries are stated at Directors' valuations less any amounts written off. Investments in related companies are included in the consolidated balance sheet at cost less goodwill plus attributable post-acquisition retained profits.

1 Principal accounting policies *continued*

Foreign currencies

Profit and loss accounts in foreign currencies are translated into sterling at average rates. Assets, liabilities and goodwill denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date. Unrealised exchange adjustments, arising on the translation of the net assets of subsidiaries and related companies, are taken direct to reserves in the consolidated financial statements. All other gains and losses on translation are dealt with in the profit and loss account.

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.

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.

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.

With minor exceptions these schemes are financed with separate trustee administered funds or insurance companies. The Group's contributions are charged against profits.

6 Interest payable and other items

	12 months to 31 December 1994 £'m	12 months to 31 December 1993 £'m
Interest payable		
On bank loans, overdrafts and other loans repayable within five years	**7.2**	14.0
Other	**1.0**	2.3
	8.2	16.3
Amortisation of refinancing costs	**0.6**	0.2
Quasi interest payable	**—**	6.2
	8.8	22.7

Included within the 1993 amounts for interest payable is quasi interest payable of £6.2 million, being the preference dividend on the 9.75% guaranteed redeemable convertible preference shares 2004 of 1p each issued by Aegis (Netherlands Antilles) Finance NV which were guaranteed by Aegis Group plc.

7 Employees

	12 months to 31 December 1994 £'m	12 months to 31 December 1993 £'m
Staff costs consist of:		
Wages and salaries	**53.5**	49.8
Social security costs	**12.8**	13.3
Other pension costs	**0.7**	0.6
	67.0	63.7

The average number of full-time employees of the Group during the year, all of whom were employed in media planning and buying, was 1,764 (1993: 1,757).

8 Profit/(loss) on ordinary activities before taxation

This is stated after charging:	12 months to 31 December 1994 £'m	12 months to 31 December 1993 £'m
Depreciation of owned fixed assets:		
– regular charge	**6.1**	7.2
– accelerated depreciation	**—**	8.0
Operating lease rentals:		
– hire of plant and machinery	**0.5**	0.4
– other	**6.1**	7.4
Auditors' remuneration and expenses	**0.7**	0.7
(Profit)/loss on sale of tangible fixed assets	**(0.1)**	0.5

Other fees paid to the auditors of the parent company during 1994 for services other than statutory audits supplied to the Company and its UK subsidiary undertakings were £0.1 million (1993: £0.8 million).

9 Directors' remuneration

	12 months to 31 December 1994 £'000	12 months to 31 December 1993 £'000
Emoluments	**2,515**	1,814
Fees	**25**	25
Compensation for loss of office	**1,278**	167
Pension contributions	**128**	72
	3,946	2,078

Compensation for loss of office represents payments made to Thierry Vial Collet and Michel Lefebvre upon their ceasing to hold office with Carat Group SA, a subsidiary undertaking.

Emoluments of Frank S Law, CBE as Chairman.	**£291,000**	£115,930
Emoluments, excluding pension contributions and compensation for loss of office of the highest paid director (1994 and 1993: Thierry Vial Collet).	**£434,000**	£442,973

The Chairman's emoluments include an amount of £175,000 being a special payment recommended by the Remuneration Committee for additional services rendered to the Group in connection with the successful restructuring in 1993. This payment was confirmed by the Board of Directors.

Frank S Law, CBE received no pension contributions in 1994. Thierry Vial Collet received pension contributions of £2,000 in 1994.

9 Directors' remuneration *continued*

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

	Option price	Exercisable	Date Granted	**31 December 1994**	31 December 1993
Crispin Davis	25.5p	1997–2004	26.10.94	**9,411,764**	—
Charles Hochman (i) (ii)	27.3p	1995	18.9.92	**1,025,641**	1,000,000
Raymond F Kelly (i)	29.3p	1996–2003	5.5.93	**230,375**	225,000
Raymond F Kelly	28.5p	1997–2004	25.5.94	**25,000**	—
Bruno Kemoun (i)	27.3p	1995–2002	18.9.92	**256,410**	250,000
Michel Lefebvre (iii)	—	—	—	—	250,000
Eryck Rebbouh (i)	27.3p	1995–2002	18.9.92	**256,410**	250,000
Thierry Vial Collet (iii)	—	—	—	—	1,000,000

(i) Option price adjusted to 29.3p from 30p and to 27.3p from 28p following the Group refinancing in October 1993.

(ii) These options lapsed six months after Charles Hochman's change in status from Executive to non-Executive Director.

(iii) These options lapsed upon termination of employment.

No options were exercised during the year by any Director. All of the options noted above were granted at no cost to the Directors.

Other than as previously disclosed to shareholders, 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 1994.

10 Tax on profit/(loss) on ordinary activities

	12 months to 31 December 1994 £'m	12 months to 31 December 1993 £'m
UK corporation tax at 33% (1993: 33%) based on profit for the year	—	—
Overseas taxation	**5.0**	5.5
	5.0	5.5

No tax arises in the UK due to the availability of losses.

11 Dividends

	12 months to 31 December 1994 £'m	12 months to 31 December 1993 £'m
Preference		
5½% convertible cumulative redeemable preference shares 1999 of 10p each	—	0.3
Ordinary		
Interim dividend of £nil (1993: £nil)	—	—
Final proposed dividend of £nil (1993: £nil)	—	—
	—	—

The Directors have decided that it is not appropriate to pay a final ordinary dividend for the current year.

12 Earnings per ordinary share

The calculation of earnings per ordinary share is based on a profit of £13.1 million (1993: loss of £29.3 million) net of tax, minority interests and preference dividends and an average number of ordinary shares in issue of 810.1 million (1993: 242.3 million).

The average number of ordinary shares outstanding on a fully diluted basis is 964.4 million. Since the earnings per share figure in 1993 is negative, no fully diluted calculation was prepared.

The profit of £13.1 million includes net charges after tax of £7.3 million (1993: £30.5 million) in respect of reorganisation costs and the Conseil fine and £nil (1993: £3.3 million) for refinancing costs. Earnings per share is therefore calculated as follows:

	12 months to 31 December 1994	12 months to 31 December 1993
Basic	**1.6p**	(12.1)p
Reorganisation costs and Conseil fine	**0.9p**	12.6p
Refinancing costs	—	1.4p
Underlying	**2.5p**	1.9p
Fully diluted basic	**1.4p**	—

15 Debtors

	Group 31 December 1994 £'m	Group 31 December 1993 £'m	Company 31 December 1994 £'m	Company 31 December 1993 £'m
Trade debtors	**422.8**	366.3	—	—
Amounts due from Group undertakings	—	—	**84.2**	64.8
Amounts due from associated undertakings	**3.2**	2.2	—	—
Other debtors	**39.0**	53.9	**0.9**	1.1
Prepayments and accrued income	**21.8**	10.7	—	0.1
	486.8	433.1	**85.1**	66.0

16 Current asset investments

	Group 31 December 1994 £'m	Group 31 December 1993 £'m	Company 31 December 1994 £'m	Company 31 December 1993 £'m
Other investments	**2.3**	4.6	—	—

Current asset investments principally comprise unlisted deposits.

17 Creditors: amounts falling due within one year

	Group 31 December 1994 £'m	Group 31 December 1993 £'m	Company 31 December 1994 £'m	Company 31 December 1993 £'m
Bank loans and overdrafts	**38.7**	36.2	**56.5**	54.2
Less deferred FRS4 costs to be amortised	**(0.6)**	(0.6)	**(0.6)**	(0.6)
	38.1	35.6	**55.9**	53.6
Trade creditors	**478.9**	406.8	—	—
Finance leases and hire-purchase contracts	**0.4**	0.3	—	—
Amounts due to Group undertakings	—	—	**0.4**	6.9
Taxation and social security	**19.1**	20.7	—	—
Corporation tax	**2.9**	4.8	**1.4**	2.5
Other creditors	**39.2**	83.9	**13.3**	22.3
Accruals and deferred income	**14.3**	8.7	**1.2**	0.7
	592.9	560.8	**72.2**	86.0

Bank loans and overdrafts are secured by a fixed and floating charge on certain Group assets.

18 Creditors: amounts falling due after more than one year

	Group		Company	
	31 December 1994 £'m	31 December 1993 £'m	**31 December 1994 £'m**	31 December 1993 £'m
Bank loans	**34.9**	26.4	**—**	3.5
Less deferred FRS4 costs to be amortised	**(1.7)**	(2.3)	**(1.7)**	(2.3)
	33.2	24.1	**(1.7)**	1.2
Other creditors	**8.8**	12.4	**3.7**	4.3
	42.0	36.5	**2.0**	5.5

Bank loans and overdrafts are represented by a multi-currency term loan and revolving credit facility which are secured by a floating charge over the shares of certain subsidiary undertakings. The term loan is repayable in varying instalments between March 1994 and September 1999. £6.9 million (1993: £0.9 million) is repayable between one and two years. £28.0 million (1993: £13.4 million) is repayable between two and five years. £nil (1993: £12.1 million) is repayable after more than five years. Interest is payable on the term loan at 1½ % over the cost of funds for each currency.

There are no amounts in other creditors (1993: £nil) repayable in instalments more than five years from the date of the balance sheet.

19 Provisions for liabilities and charges

	Property £'m	Other restructuring £'m	Total £'m
Group:			
At 1 January 1994	13.7	13.2	26.9
Charge for the year	2.9	6.2	9.1
Utilised in the year	(4.4)	(6.6)	(11.0)
At 31 December 1994	**12.2**	**12.8**	**25.0**
Company:			
At 1 January 1994	1.6	2.5	4.1
Charge for the year	2.9	2.1	5.0
Utilised in the year	(0.3)	(2.5)	(2.8)
At 31 December 1994	**4.2**	**2.1**	**6.3**

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.

20 Share capital

	31 December 1994 Equity £'m	31 December 1994 non-equity £'m	31 December 1994 Total £'m	31 December 1993 Equity £'m	31 December 1993 non-equity £'m	31 December 1993 Total £'m
Authorised:						
1,200,000,000 (1993: 1,200,000,000) ordinary shares of 5p each	**60.0**	—	**60.0**	60.0	—	60.0
68,181,820 (1993: 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:						
814,494,853 (1993: 805,709,634) ordinary shares of 5p each	**40.7**	—	**40.7**	40.3	—	40.3
68,181,818 (1993: 68,181,818) variable rate convertible cumulative redeemable preference shares 2003 of 5p each	—	**3.4**	**3.4**	—	3.4	3.4
	40.7	**3.4**	**44.1**	40.3	3.4	43.7

The ordinary shares of 5p each have full voting rights. The variable rate convertible cumulative redeemable preference shares 2003 of 5p each have limited rights as specified in the Company's Memorandum and Articles of Association. These preference shares are redeemable at par plus any premium paid.

On 7 January 1994, 272,134 ordinary shares of 5p each were issued for a total of FFr415,617 as part consideration for the acquisition of Société Crespieroise de Participation SA ("Média Gestion").

On 23 June 1994, 6,229,932 ordinary shares of 5p each were issued for a total of FFr14,000,000 as part consideration for the acquisition of Cyclades SA.

On 27 July 1994, 178,699 ordinary shares of 5p each were issued for a total of FFr415,617 as part consideration for the acquisition of the minority interest in Média Gestion.

On 14 August 1994,

(a) 453,528 ordinary shares of 5p each were issued for a total of FFr995,000 as part consideration for the acquisition of the minority interest in Grands Espaces Conseil.

(b) 404,298 ordinary shares of 5p each were issued for a total of FFr887,000 as part consideration for the acquisition of the minority interest in Carat Développement.

(c) 1,075,702 ordinary shares of 5p each were issued for a total of FFr2,360,000 as part consideration for the acquisition of the minority interest in Halogène.

(d) 170,926 ordinary shares of 5p each were issued for a total of FFr375,000 in accordance with an arbitrator's ruling regarding the aborted joint venture, Magnitude.

Under the executive share option scheme there were at 31 December 1994, 18,070,250 ordinary shares of 5p each over which the participants have the right to exercise options at prices ranging from 25.5p to 165.8p exercisable between 1 January 1995 and 25 October 2004.

20 Share capital *continued*

The variable rate cumulative convertible redeemable preference shares 2003 of 5p each 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 so converted. Unless otherwise converted or redeemed, the Company shall redeem on 31 December 2003 all of the variable rate cumulative convertible redeemable preference shares 2003 at par plus any premium paid thereon.

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.

21 Reserves

Group:	Share premium account (equity) £'m	Share premium account (non-equity) £'m	Capital redemption reserve £'m	Special reserve £'m	Goodwill reserve £'m	Profit & loss account £'m
At 1 January 1994	261.7	11.3	0.2	—	(458.0)	23.2
Transfers	(233.3)	—	—	25.8	—	207.5
Issue of shares by the Company, less expenses	1.7	—	—	—	—	—
Goodwill arising in the year written-off	—	—	—	—	(8.3)	—
Exchange adjustments	—	—	—	—	(9.7)	5.6
Retained profit for the year	—	—	—	—	—	13.1
At 31 December 1994	**30.1**	**11.3**	**0.2**	**25.8**	**(476.0)**	**249.4**

The cumulative amount of goodwill arising from acquisitions during the year ended 31 December 1994 and prior years, net of goodwill attributable to subsidiary undertakings disposed of prior to 31 December 1994, amounted to £476.0 million (1993: £458.0 million).

Company:	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
At 1 January 1994	261.7	11.3	0.2	—	13.0	(205.4)
Transfers	(233.3)	—	—	25.8	—	207.5
Issue of shares by the Company, less expenses	1.7	—	—	—	—	—
Retained profit for the year	—	—	—	—	—	5.3
At 31 December 1994	**30.1**	**11.3**	**0.2**	**25.8**	**13.0**	**7.4**

21 Reserves *continued*

In the annual report and financial statements for the year ended 31 December 1993 it was stated that the Company had a deficit on its profit and loss account and that it was intended to propose to shareholders and make application to the UK High Court to transfer part of the credit on the share premium account to a special reserve. Shareholder approval was received at an extraordinary general meeting in June 1994 and the approval of the UK High Court was received in July 1994. Accordingly, £233.3 million has been transferred from the share premium account to a special reserve, from which £205.4 million was transferred directly to the profit and loss reserve. Following the issue of shares during the year a further £2.1 million has been transferred from the special reserve to the profit and loss account.

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 1994 was £5.3 million (12 months to 31 December 1993: loss of £221.3 million).

22 Acquisitions

During 1994 the Group made additional payments to acquire further interests in certain of its subsidiary undertakings from minority shareholders. These payments arose principally in respect of the acquisition of a further 30% in Carat España and the remaining minorities in Carat Crystal, Belgium. As the payments were made in respect of undertakings already included in the Group accounts, the consideration rendered, net of minority interests extinguished, has been taken to goodwill arising in the year.

The acquisition of the minority interest in Carat Crystal was made for cash consideration of BEF181.2 million (£3.5 million). The minority interests were acquired from A Bataille, E de Wolf and SA Media Buying International.

Also during 1994 the Group acquired the outstanding 50% interest in Cyclades SA together with a 25% interest in Carat Expansion. Consideration for these acquisitions was FFr42 million (£5.0 million) to be paid in a combination of cash and shares over a period of three years of which FFr14 million (£1.7 million) was paid, wholly in shares, in 1994. These interests were acquired from G Chryssostalis and members of his family.

23 Contingent liabilities and other commitments not provided

Capital payments:
Additional capital payments which have been fully provided for may be made to the vendors of certain subsidiary and associated undertakings in the years to 1996. Such payments 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 1994 for payments that may be due is as follows:

	£'m
Within one year	3.6
Between one and five years	1.7
After more than five years	—
	5.3

At the Group's discretion, up to £2.1 million of the contingent capital payments noted above may be discharged in the form of ordinary shares.

23 Contingent liabilities and other commitments not provided *continued*

In addition to the contingent liabilities set out above, there are certain put options exercisable between 1995 and 2005 within Carat companies in Scandinavia, Greece 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 £6.5 million, payable in a combination of cash and ordinary shares.

Guarantees of £12.3 million (1993: £17.8 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.

Litigation:

In April 1991, the Company was served with a complaint brought in a New York Federal Court against the Company and various of its subsidiaries and officers by C&W Associates Inc. and others. The plaintiffs claim that various improprieties by Aegis and others took place in connection with negotiations regarding, and the formation of, entities for the purpose of promoting and marketing the sport of soccer in the USA. The basis of the complaint is fraud and breach of fiduciary duties. It is expressed to be for US$86 million plus triple and punitive damages, although this sum is nowhere quantified in the complaint and evidence has neither been put forward by the plaintiffs nor seen by the defendants to justify this sum.

In January 1994, the plaintiffs in the federal case commenced a similar action in a New York State Court. Although the Company is not a defendant in this action, certain defendants therein have called upon the Company to defend the claims under a contractual indemnity. It is not expected that the outcome of the state action will materially increase any potential liability of the Company.

The Directors, having taken legal advice, believe that the impact of this claim will not have a substantial effect on Group results.

Lease commitments:

At 31 December 1994, there were the following annual commitments in respect of non-cancellable operating leases for the following year:

	Group		Company
	Land and buildings £'m	Other £'m	Land and buildings £'m
Operating leases that expire:			
Within one year	1.3	0.7	—
Between one and five years	2.6	0.6	—
After more than five years	2.3	0.1	0.6
	6.2	1.4	0.6

Notice of meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at 11:00am on Wednesday 7 June 1995 at 2 Eaton Gate, London SW1W 9BL for the purpose of transacting the ordinary business of the Annual General Meeting set out in resolutions 1 to 8, and special business, when resolution 9 will be proposed as an ordinary resolution and resolutions 10 and 11 as special resolutions.

Ordinary business

1. To receive the statement of accounts for the financial year ended 31 December 1994 and the reports of the Directors and auditors thereon.
2. To re-elect as a Director of the Company, Gilles Gobin who retires by rotation and, being eligible, offers himself for re-election.
3. To re-elect as a Director of the Company, Raymond F Kelly who retires by rotation and, being eligible, offers himself for re-election.
4. To re-elect as a Director of the Company, Bruno Kemoun who retires by rotation and, being eligible, offers himself for re-election.
5. To re-elect as a Director of the Company, Kai Hiemstra who was appointed since the last Annual General Meeting of the Company and, being eligible, offers himself for re-election.
6. To re-elect as a Director of the Company, Crispin Davis who was appointed since the last Annual General Meeting of the Company and, being eligible, offers himself for re-election.
7. To re-elect as a Director of the Company, Colin Day who was appointed since the last Annual General Meeting of the Company and, being eligible, offers himself for re-election.
8. To re-appoint Price Waterhouse as auditors of the Company and to authorise the Directors to fix their remuneration.

Special business

9. 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 £12,077,942 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 Annual General Meeting of the Company to be held in 1996, 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.
10. That subject to the passing of resolution 9 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 9 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 £2,036,000

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 Annual General Meeting of the Company to be held in 1996 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.

11. 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 International Stock Exchange of the United Kingdom and Republic of Ireland Limited upon and subject to the following conditions:

(a) the maximum number of shares which may be purchased is 40,889,000 ordinary shares (approximately 5% of the present issued ordinary share capital);

(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 Daily Official List of the International Stock Exchange of the United Kingdom and Republic of Ireland Limited for the ten 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 at the conclusion of the Annual General Meeting of the Company to be held in 1996, save that the Company may before such expiry make a contract to purchase shares which would or might be 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.

By order of the Board

Elizabeth A Richardson
Secretary
2 Eaton Gate
London SW1W 9BL

12 May 1995

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 Crossway North, Edinburgh EH11 OXG) not less than 48 hours before the time appointed for the holding of the meeting. Return of the proxy form will not affect the right of a member to attend and vote at the meeting.

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 will be available for inspection at 2 Eaton Gate, London SW1W 9BL during normal business hours on any business day from the date of this notice until the date of the meeting and on the date of the meeting until the conclusion of the meeting.

Financial history and shareholder information

Daily share price listing in London

System	Share type	Access code
TOPIC	ordinary	205
SEAQ	ordinary	50032
REUTERS	ordinary	AGS.L

Financial calendar

5 April 1995
Preliminary announcement of full year results

12 May 1995
Publication of annual report

7 June 1995
Annual General Meeting

September 1995
Announcement of interim results

Five year record

	12 months to 31 December 1990 (as restated) £'m	12 months to 31 December 1991 (as restated) £'m	12 months to 31 December 1992 (as restated) £'m	12 months to 31 December 1993 £'m	**12 months to 31 December 1994 £'m**
Turnover	1,717.3	2,109.3	2,845.3	2,748.4	**2,969.9**
Profit/(loss) before taxation	69.9	54.4	(10.9)	(18.1)	**20.1**
Taxation	25.7	20.9	12.6	5.5	**5.0**
Profit/(loss) after taxation	44.2	33.5	(23.5)	(23.6)	**15.1**
Retained profit/(loss)	25.3	14.8	(30.6)	(29.3)	**13.1**
Earnings/(loss) per ordinary share – basic	39.2p	19.9p	(20.8)p	(12.1)p	**1.6p**
Dividends per ordinary share	5.85p	5.85p	1.375 p	nil	**nil**

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 only); and

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

The comparative amounts for 1990 and 1991 have not been restated for FRS4 as the Directors consider that the adjustments required cannot be reasonably quantified.

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