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Financial highlights

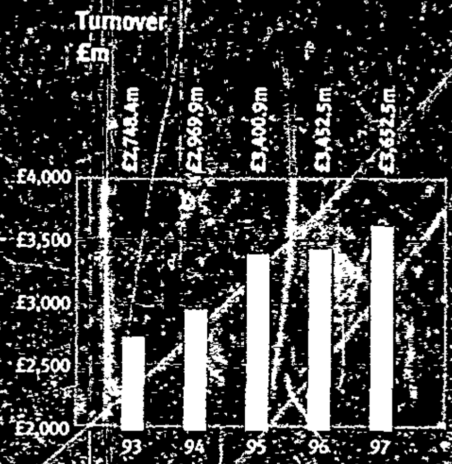
* Pre-tax profits rise 15% to £45.6m including an exceptional gain of £2.1m.
* Underlying profit increases 10% to £43.5m (28% on a constant currency basis).
* Fully diluted earnings per share rise to 3.5p, up 16 % (31% on a constant currency basis).
* Turnover grows to £3,653m, up 6% (21% on a constant currency basis).
* Gross margin rises again from 5.2% to 5.3% reflecting the introduction of more value-added services.
* Strong new business performance, with net wins of US$702m.
* Full year dividend up 17% to 0.7p.
* Encouraging development of the Carat network in the USA and Asia.

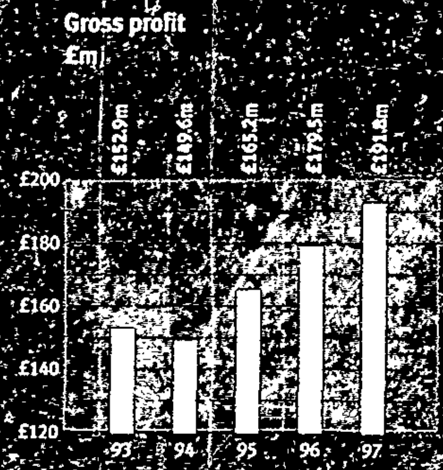
	1996	1997	% change Actual	% change Constant currency
Turnover	£3,452.5m	**£3,652.5m**	6%	21%
Gross Profit	£179.5m	**£191.8m**	7%	22%
Profit before tax	£39.6m	**£45.6m**	15%	33%
Earnings per share (fully diluted)	3.0p	**3.5p**	16%	31%
Full year dividend	0.6p	**0.7p**	17%	17%
Net Debt	£7.6m	**£2.2m**	(71%)	(137%)

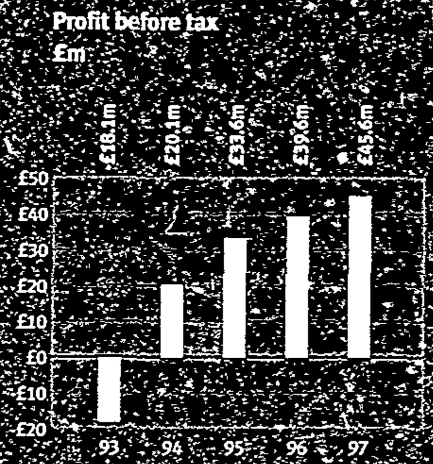
325
6.5.98

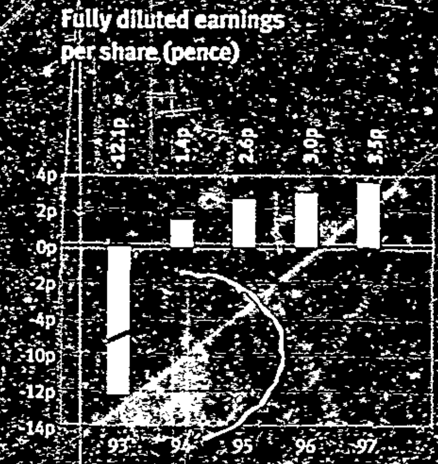
year growth

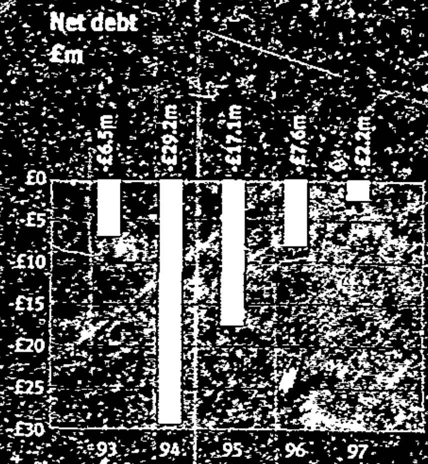
* Turnover increases 33% to £3,652.5m.
* Gross profit increases 25% to £191.8m.
* Profit before tax has risen to £45.6m.
* Fully diluted earnings per share increase to 3.5p.
* Net debt is substantially reduced to £2.2m.











Chairman's statement

I am pleased to report another very good set of results for the Group. All of our main businesses have performed well and we are making good progress on our plans for both international expansion and enhanced product development.

Financial Results

Despite the strength of sterling throughout 1997 Aegis has produced a very respectable result. Margins have increased ahead of the improved trading volume. Whilst substantial investments have been made in both expansion and product development, costs remain well-managed.

Profit before tax of £45.6 million includes a £2.1 million gain arising on the sale of our investment in Manning Gottlieb Media in the UK. Excluding this non-recurring item underlying reported profits have increased by 10% year on year.

Foreign exchange movements have had a significant impact on the 1997 results. Excluding exchange movements underlying pre-tax profits have increased by 28%.

Dividend

An interim dividend of 0.3 pence per ordinary share was declared and paid earlier in the year. The Board has recommended the payment of a final dividend of 0.4 pence per ordinary share making 0.7 pence per ordinary share in total for the year, an increase of 17% over 1996.

Group Development

A total of 7 acquisitions were completed during the year; 4 in continental Europe, 2 in the United States and another in South East Asia. Details of these transactions are provided in the financial statements.

In addition, I am pleased to announce that early in 1998 we completed the acquisition of Halmarick Media in Sydney, Australia.

With respect to product and service our Carat 360° branding represents a series of technical solutions designed to deliver the most innovative and effective communication to maximise clients' return on investment. Further details of the Carat 360° approach to media services are provided later within this annual report.

Management and Board

There were two changes in the composition of your Board during the year. On 12 December John Amerman was appointed a non-executive director. John was previously the Chairman and Chief Executive of Mattel Inc where he is now a non-executive director. He brings substantial knowledge of the consumer products industry to Aegis and will undoubtedly contribute in fulfilling our future plans in the US.

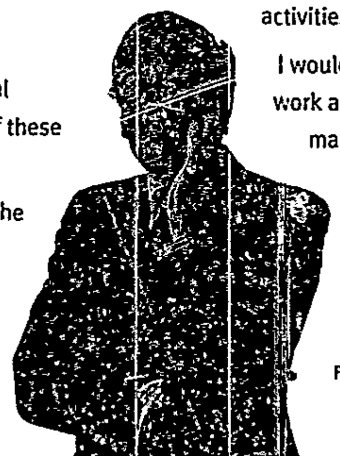
On 31 December Charles Hochman resigned as a non-executive director. Charles was responsible, in his last two years as CEO, for much of the turnaround of the Group and I want to express the Board's appreciation and my personal thanks for his successful efforts.

Current Trading

1998 has commenced satisfactorily for the Group. Turnover and profits are ahead of the levels established in 1997 and the Group's strong performance in new business has continued.

The Future

The global opportunities in our sector continue to offer exciting growth potential. Aegis plans to continue its strategic ambition to be at the forefront of global media activities with a presence in all major markets.



I would like to take this opportunity again to thank all our staff for their hard work and dedication towards achieving these results. Their commitment has made 1997 another year of outstanding performance.

The early indications are that we will see solid growth and continued success in 1998.

Frank S Law CBE, Chairman.

Chief Executive's review

We are pleased to report another good set of results for the Group, despite the significant adverse impact of the strong pound. All main areas of the business performed well and new business gains were at a record high. Improved turnover, margin and cash flow all contributed to a strong financial performance.

1997 also saw important progress against our long term strategic goals of upgrading our core capabilities, extending our range of services and building a global network.

"THE GROUP PERFORMED WELL DUE TO SOLID MARKET GROWTH, AN EXCELLENT PERFORMANCE ON NEW BUSINESS AND THE IMPACT OF BOTH ACQUISITIONS AND GEOGRAPHICAL EXPANSION."

Business Overview

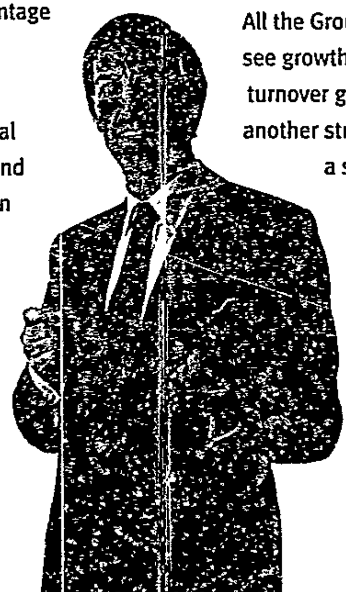
As we reported last year, the current environment continues to be favourable for Aegis. The increasing complexity of media communications, the growing challenge of reaching consumers effectively, the proliferation of media vehicles driven by new technologies and the move to marketing strategies on a global scale all offer enormous opportunities for the international media specialist. As the largest independent media specialist, Aegis is well placed to take advantage of these changes. We continue to invest in people, systems, data management and research in pursuit of our strategic goals.

Advertising expenditure also continues to grow at a healthy rate. Global expenditure is estimated to have increased by around 6-7% in 1997, and by 4-5% in Europe. The indications are that, despite the clear downturn in Asia, global advertising growth will be broadly comparable in 1998.

Business Performance

The Group performed well in 1997.

Growth in reported turnover was satisfactory at 6%. On a constant currency basis turnover increased by a strong 21%. This reflects solid market growth, an excellent performance on new business and the impact of both acquisitions and geographical expansion.



All the Group's principal operations performed well; it is encouraging to see growth so broadly spread. Germany, France, UK, Spain and Italy posted turnover gains ahead of the market. Eastern and Central Europe also had another strong year. Among the European countries only Sweden underperformed; a strong remedial action plan has been implemented. Particularly encouraging is the performance in the United States where three acquisitions were completed in late 1996 and early 1997. Results there are ahead of objectives at all levels.

LEFT: CRISPIN DAVIS, CHIEF EXECUTIVE.

As reported more fully in the Financial review, gross margin increased again to 5.3%, reflecting continued focus on more value-added services. Cash flow was also strong, reflecting tight financial control and the inherent cash-generative nature of the business. Resultant profit before tax was up to £45.6 million or 15% – helped in part by an exceptional gain on disposals – and fully diluted earnings per share were up 16%. Excluding the currency impact and the exceptional gain, underlying profits were up 28%.

Business Development

During 1997, the Group has continued to make important progress against its key strategic objectives.

Fundamental to the Group's long term health is the quality of service offered to clients. Major investment of resources has been deployed to ensure Carat offers a superior product to the competition; as illustration, almost £15 million in total was spent on research in 1997.

"SIGNIFICANT PROGRESS HAS ALSO BEEN ACHIEVED IN BUILDING A GLOBAL NETWORK UNDER THE CARAT NAME AND OUR MANAGEMENT CONTROL."

"DURING 1997, THE GROUP COMPLETED SEVEN ACQUISITIONS FOCUSED AROUND ITS STRATEGIC GOALS OF ENHANCING AND BROADENING ITS RANGE OF SERVICES, AND EXPANDING GLOBALLY."

We continue to develop our unique global approach to media communications: the Carat 360° service. This encompasses all aspects of a client's media communication programme from traditional TV, print and radio to sponsorship, programming, database marketing, internet, interactive and direct response.
We have been developing the capability to give clients a superior service on strategy, planning, buying and evaluation covering all these areas. We have built proprietary tools at each stage of this service. In addition, some stages of the service are enriched with stand alone companies, such as Consodata for database marketing, and Media Marketing Assessment ("MMA") for marketing evaluation. By offering this depth of service, we have kept to our core strategy of moving to more value added products which in turn improve group margins.

Significant progress has also been achieved in building a global network. We began expansion from our leadership base in Europe in 1996 when Aegis was essentially competing in only 30% of the world market, so the opportunity was significant.
Our declared goal then was to build a global network – with a meaningful presence

Chief Executive's review (continued)

in all the world's major markets under the Carat name and management control – within 5 years. Much has been accomplished in 18 months, and we now hope to reach that objective quicker than originally anticipated.

The developments in the USA have been most encouraging. The three acquisitions completed in late 1996 and early 1997 have performed ahead of expectations. Media Marketing Assessment, a unique research company providing sophisticated evaluation of clients' marketing and media programmes, is growing strongly and will be expanding into Europe in 1998. MBS and ICG, the media planning/buying operations on the East and West coast, have integrated well and have performed strongly this year. Carat is now the leading independent media specialist in the USA. Overall, net media billings at the end of 1997 were running at an annualised US$750 million – almost 10% of the Group total. Significant new business was gained (the US was the largest contributor to the Group's new business wins), and the USA made a worthwhile contribution to Group earnings per share in 1997 after financing and integration costs. We expect another strong year in 1998.

"NET NEW BUSINESS (WINS – LOSSES) TOTALLED A RECORD HIGH US$702 MILLION, 58% UP ON LAST YEAR. ALL THE MAJOR COUNTRIES HAD SUCCESSFUL YEARS."

Good progress is also being made in Asia. We are in the process of acquisition against a backdrop of recent economic upheaval. As a result, the purchase cost of our acquisition targets has fallen sharply in sterling terms, and while the development of a leading Asian network will require patience, the timing has been quite opportune. We believe Asia continues to offer long-term opportunities for the Group. In late 1997 we acquired Mediabase in Malaysia. Early in 1998, we also acquired Halmarick Media in Australia. This will provide us with a prominent position in Australia with a high quality and well regarded operation. Aegis has just signed heads of agreement to enter into a joint venture with a leading agency in Thailand and we also expect to conclude joint venture agreements with strong partners in the Philippines and Taiwan in the next 3-6 months. This will provide us with substantial local operations under the Carat name and management in these countries. Along with existing operations in Hong Kong and India, we will have a good Asian framework from which to build.

Lastly, 1997 was a very good year for international client development. Net new business (wins – losses) totalled a record high US$702 million, 58% up on last year. All the major countries had successful years. Notable gains included Kraft Jacobs Suchard and Television par Satellite (France), Apple Computers and Royal Mail (UK), Oetker (Germany), Omnitel (Italy), and Telefonica (Spain). We were particularly encouraged to gain Ameritech and Alberto Culver in the United States.

Overall, international clients now account for approximately 50% of the Group's total billings. We remain focused on developing global relationships with our key clients as our network develops.

1998 Outlook

We have started 1998 with good momentum. Results in the first two months are running ahead of 1997 and also ahead of objectives. New business performance is strong. Given the Group's current position and the significant business development opportunities we are pursuing, we anticipate another year of progress and growth. We continue to have great confidence in the Group's future.

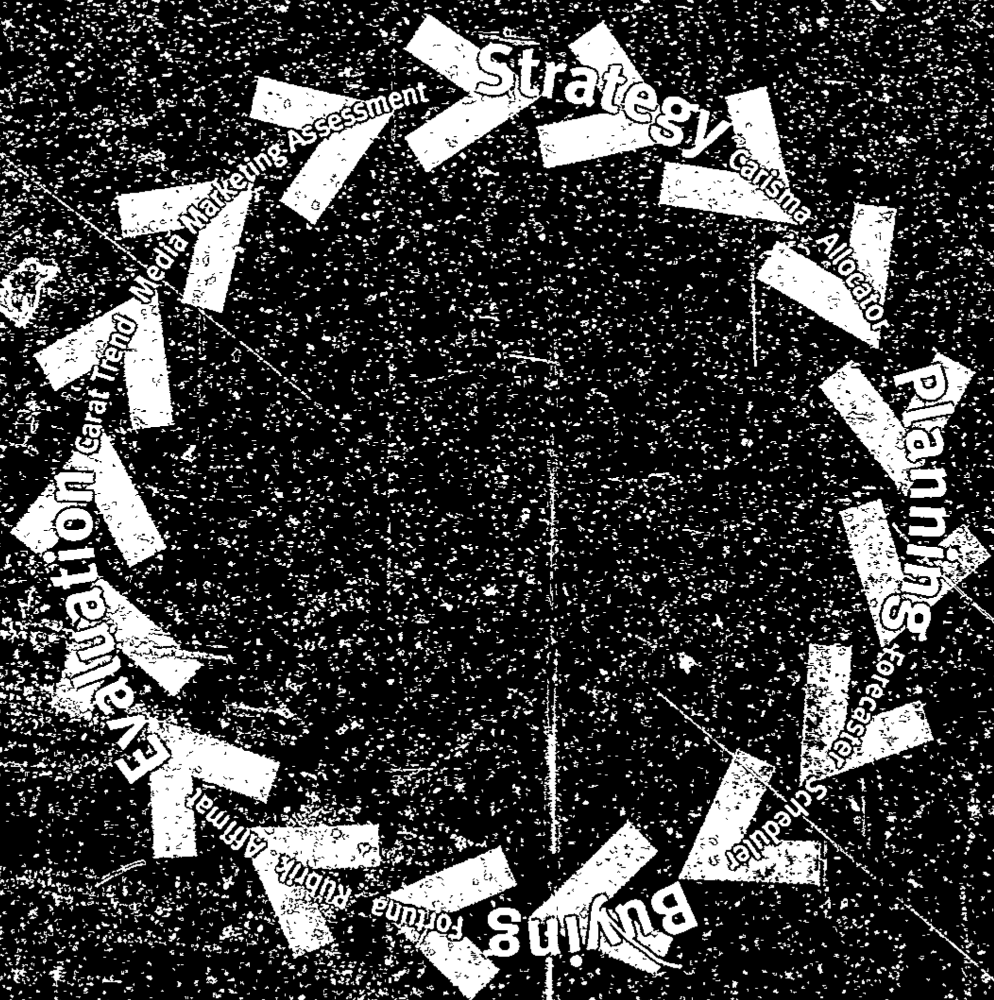
Crispin Davis

CRISPIN DAVIS, CHIEF EXECUTIVE.

The 360° offer

Total media communication service

- Direct Mail
- Telesales
- Direct Response
- Interactive TV
- Internet
- Television
- Radio
- Press
- Outdoor
- Cinema
- Programming
- Media Sponsorship
- Event Sponsorship
- Data Management
- Provision of Information
- Evaluation
- Decision Models



Carat manages each communication channel from traditional media through to sponsorship, internet and direct mail. Partnering with the client and media owners and producers we devise unique strategies using media to have maximum effect on the client's most valuable consumers. Within this process, we have developed bespoke analytical tools at each stage building on past learning and ensuring optimum deployment of budgets.

Strategy

We aim to develop strategies which target our clients' most valuable customers. By bringing together an understanding of the media landscape, the competitors' situation and consumer behaviour we choose media vehicles which provide impact and a relevant context for the brand's message. Communication can then drive sales by changing consumers' purchasing patterns and attitudes.

Clients have increasing access to data to create this accurately targeted communications and to guide budget deployment. Scanning data, media audience measurement, demographics and attitudes from managed address lists all generate volumes of data. These can be merged with ad hoc, qualitative information to give clear indicators of those groups of consumers, brands, and geographic areas which have the most potential to give a return on investment, short and long term.

However, whilst high powered analytical tools can help define options, it is still the ability to spot innovative uses of media, to generate integrated programmes from Internet to point of sale which gives real visibility for a brand. Reaching customers in a new environment, at a different time of day, when they are relaxed or active, can substantially change their attitude and reaction to a message, delivering added value from a budget.

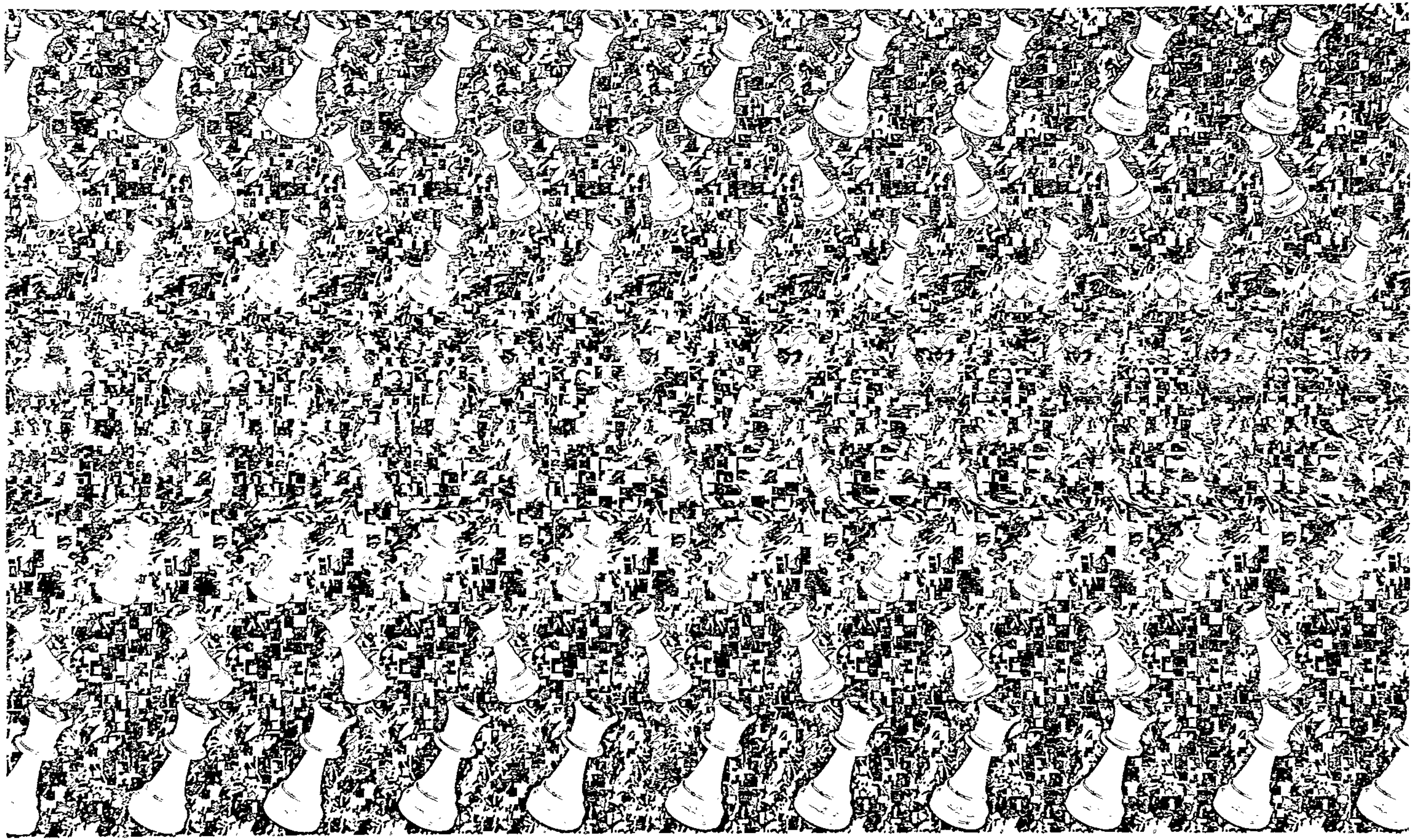
Unique, leading edge tools analyse clients' data to give a sound base for innovative uses of media. The objective is to maximise consumer response, adding value to the brand's message.

"APPLE WANTED TO CENTRALISE WITH THE BEST AND REFRESH ITS APPROACH BY CHOOSING A PARTNER 100% DEDICATED TO MEDIA. WE WERE MULTIPLYING BY THREE OUR CHANCES OF FINDING NEW IDEAS IN TERMS OF FORMATS AND INVESTING OUR BUDGET DIFFERENTLY IN LINE WITH THE THEME 'THINK DIFFERENT' THAT OUR UPCOMING CAMPAIGN DICTATED."

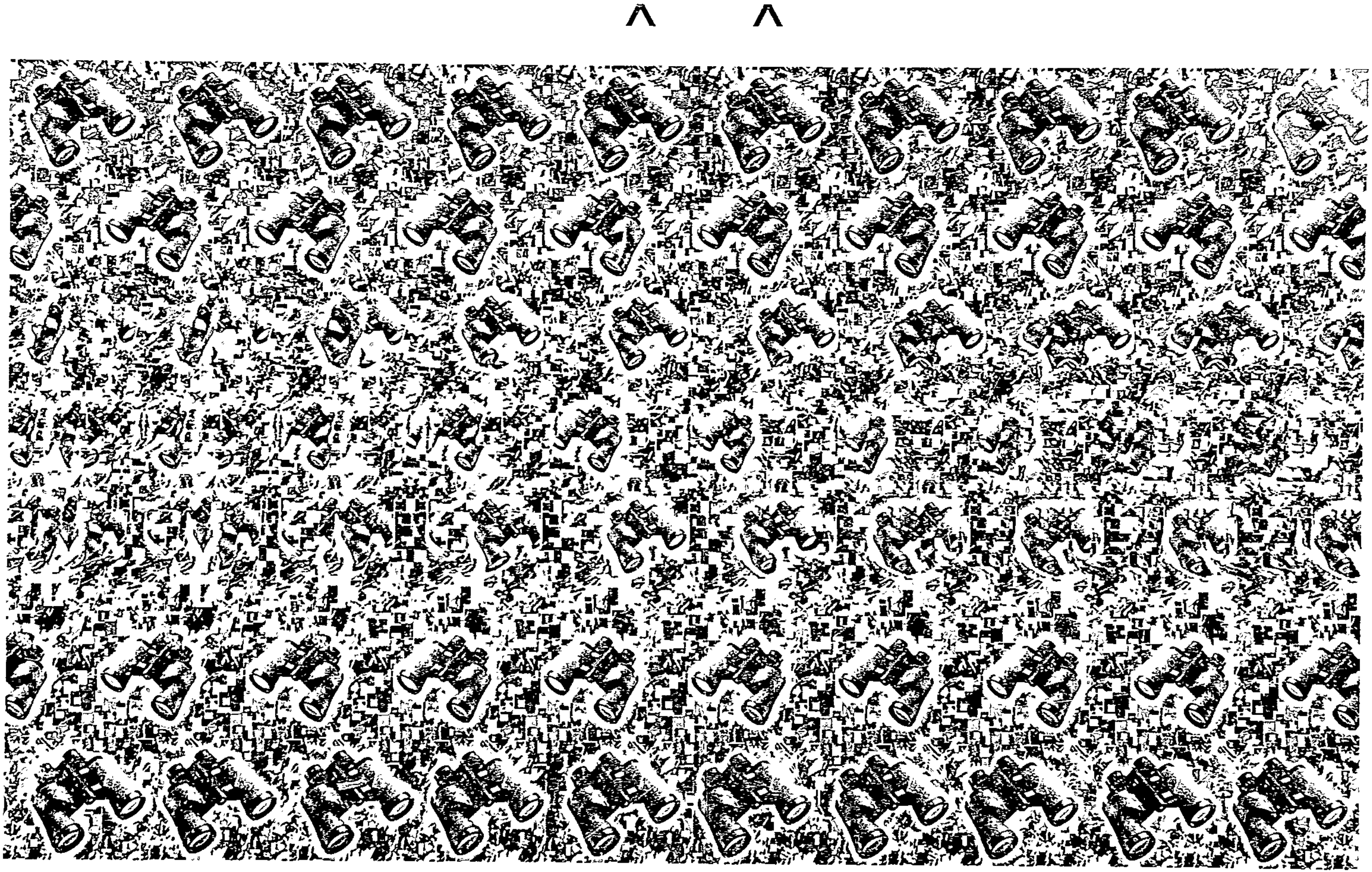
FRANCOIS RUAULT, EUROPEAN ADVERTISING MANAGER OF APPLE, ON AWARDING CARAT THEIR EUROPEAN MEDIA ACCOUNT.

Carisma is a unique Carat tool, segmenting people by their media habits. Whether they are media junkies or upwardly mobile professionals, we can specify a media strategy to engage their interest and cut through the clutter of messages reaching them. Comparisons across countries help to construct global and regional strategies for our clients.

Attilio Redivo *(left)* **& Angelo Baiocchi** *(right)*, **Carat Italy.** "For the Volkswagen Golf Launch we developed a true 360° Communication strategy, built on an in depth analysis of consumers, their habits and values. This led to identifying a core strategic idea: all the media will convey the concept of the Golf being a Myth, an icon. This big idea has been brought to life using all media, including a peak-time programme's production in co-operation with Amnesty International, an Internet site, Point of Purchase events and, of course, an outstanding media campaign. This is a significant example of Carat's difference, a process where all steps are aimed coherently at the final result. And we're ready to be measured on that."



Advantage from innovative moves



Effective focus

Planning

With numerous channels of communication to choose from, we need to test out alternative plans, simulating results to show the demonstrable benefits for each scenario. The planning tools rely on a broad scope of experience to assess parameters of effectiveness for each medium from TV to Direct Mail. We need a constant feedback loop to ensure planners can update and share their knowledge.

Our Scheduler system takes all our media knowledge to allocate budgets across a given period. The impact and decay rate of advertising is calculated using historic data for a brand or from category norms. Correct phasing can augment short term advertising effect by as much as 30% whilst building improved cover of the target audience.

As we expand our service into new media we are developing tools which measure new audiences and the best indicators of effectiveness so that we can estimate ideal budget splits. Optimisation models can then assess the additional potential of diverting budget into less traditional communication channels by adding sponsorship, programming or direct response activity.

"CLIENTS LIKE THE ROYAL MAIL ARE INCREASINGLY CALLING FOR A MORE INTEGRATED APPROACH TO MEDIA PLANNING, AND AGENCIES WILL NEED TO RESPOND BY POSITIONING ALL FORMS OF COMMUNICATION, INCLUDING DIRECT MAIL, ALONGSIDE TV, PRESS AND OUTDOOR WHEN PLANNING THE MIX."

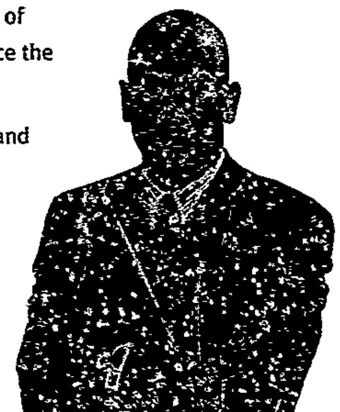
DEREK FAIRHURST, ROYAL MAIL QUALITY CONTROLLER, ON WHY ROYAL MAIL SELECTED CARAT AS ITS MEDIA AGENCY

The Carat Allocator recommends alternative media plans which optimise the potential of a campaign budget. It assesses numerous 'what ifs' for specific market conditions. We then examine hundreds of plans to achieve, for example, the best return on investment or build the fastest mass awareness. Allocator frees up a planner's time to explore the results so they can show the effect of building in their own or their client's assumptions.

Optimising budget split between media needs comparable measures of effectiveness gathered from wide experience of media and brands.

Alexander Ruzicka – Chief Operating Officer, Carat Germany. "While the understanding of media on the client side is steadily increasing, the definition of effectiveness goes far beyond the classic media parameters. Understanding and measuring the specific contribution of communication towards sales allows us to clearly reduce the risk in investment for our clients.

To combine this knowledge with personal consultancy and innovative solutions in traditional and non-traditional communication vehicles gives our clients a clear competitive edge over the market and Carat a valued position in their communication team."



Buying

Carat want to buy *effectiveness* not just weight of advertising for our clients.

We have developed unique methods of qualifying rating points for scheduling/buying. This is key in gauging the true *value* of an advertising placement. All our tools use this modified descriptor to produce more targeted buying based on how effective each placement will be. This is collated with awareness and tracking data modelled to show effectiveness against any given target group.

Local knowledge is fundamental to construct detailed schedules exploiting short term opportunities and events to get the best deal.

International management and reporting then relies on consistent processes and use of media language. As we open in each new market we are 'containerising' our systems to ensure rapid benefits for local and global clients.

Our analytical tools examine media performance down to the individual position in the ad break, or position of a page or poster. This ensures that every advertisement reaches the target audience when they are at their most attentive.

"WITH OPERATIONS AROUND THE WORLD, VW HAS TO HAVE A PARTNER CAPABLE OF MANAGING AND BUYING MEDIA COST-EFFECTIVELY. WITH CARAT WE ALSO GET THE REASSURANCE THAT THEY HAVE SKILLED PRACTITIONERS ON THE GROUND IN OUR MOST IMPORTANT EUROPEAN MARKETS."

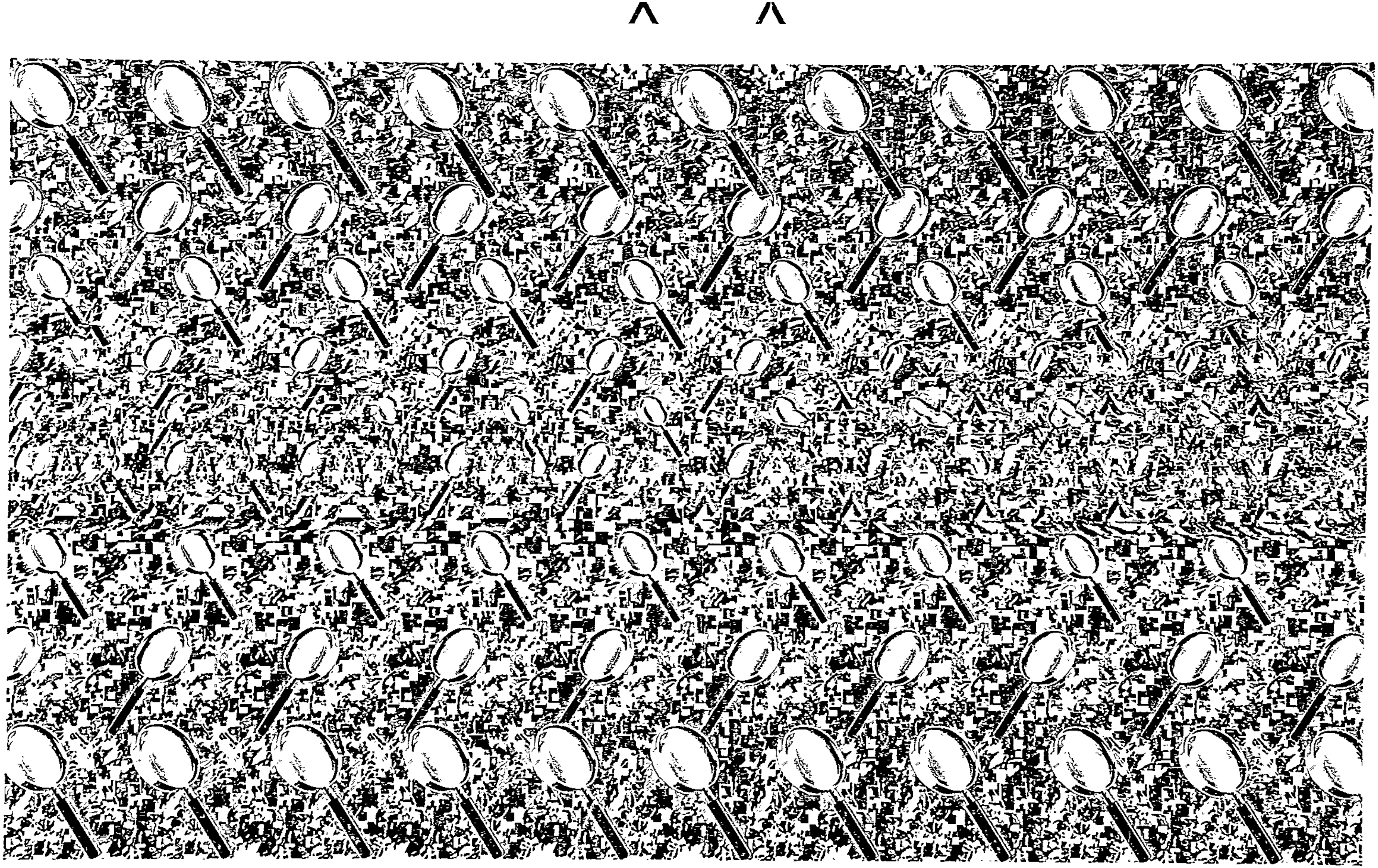
MARTIN BISWURM – MARKETING COMMUNICATIONS, VOLKSWAGEN.

Confidence to buy the right media comes from having the data to back up judgements quickly. Fortuna, Rubrik and Affimat are tools to link advertising effectiveness with price across the myriad of TV spots, thousands of publications or poster sites. We invest in buying data, building these bespoke systems as the foundation for our competitive advantage and supporting the skills of our buyers in each medium and market.

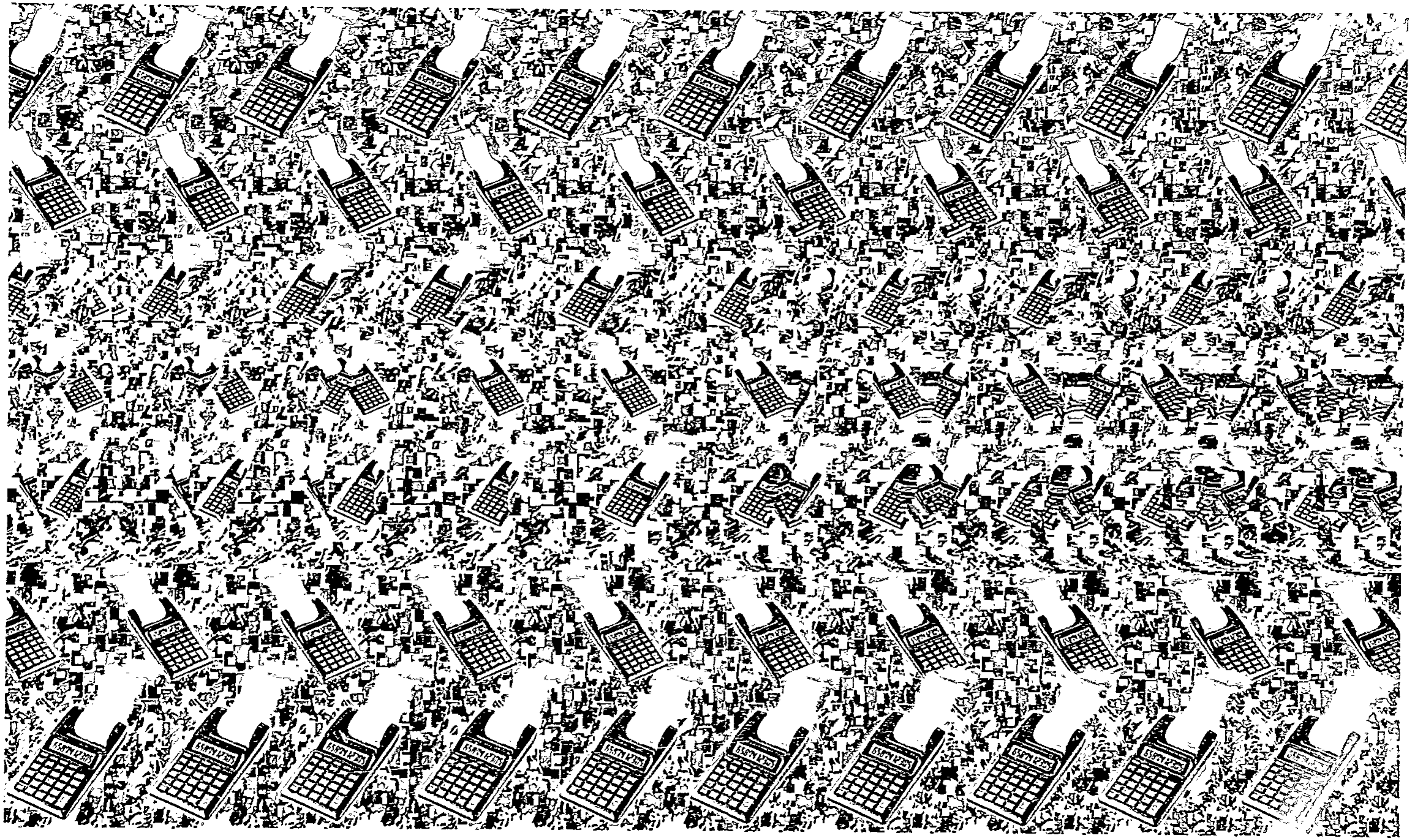
Bruno Kemoun (left) & Eryck Rebbouh (right), Joint Chairmen, Carat France. "Our clients are becoming increasingly insistent on accountability and quality of process.

At Carat, we believe in the continuity and accountability of our process. We insist on quality management, systems and processes across the group. In France, we were awarded the ISO 9001 mark, the first for a media company, after every one of our 399 staff were judged to be successfully running and implementing the highest calibre standards.

Through this work we are becoming the new benchmark for the industry."



Accountability in examining results



Value from analysis

Evaluation

The evaluation of a campaign is the first step in producing an even more effective campaign the next time. Over 190 media researchers work to deliver real insight into media performance and consumer behaviour.

Each step is evaluated and fed back to "Lessons Learned". These are shared and their implications assessed, whether in traditional media, new media or sponsorship.

Carat Trend helps us visualise and report client sales, advertising awareness changes in usage for the client's brand and competitors against the schedules we've delivered. It provides insights into the way advertising is performing in different media and market contexts.

In addition, we have acquired Media Marketing Assessment (MMA) in the US, which offers leading edge services in tracking and modelling of the relations between the advertisers' major marketing variables (advertising, in-store promotion, coup ns, pricing and more) and the sales volume.

The models can be used to optimise the marketing mix, simulate the effect of future marketing strategies and forecast volume.

MMA is a separate self-standing company, which will be expanded to Europe and Asia Pacific.

We need to know the detailed results a communication campaign has produced in the context of the clients marketplace. We can then provide quantitative evidence of how to change or reinforce their communication strategy.

"WE DECIDED TO APPOINT OUR FIRST EVER INTERNATIONAL MEDIA SPECIALIST IN 1996. WE SELECTED CARAT AS THEY WERE ABLE TO OFFER A CONSISTENT, HIGH QUALITY PRODUCT ACROSS ALL OFFICES. THEY WERE ABLE TO BRING US DEEPER INSIGHTS INTO UNDERSTANDING HOW TO REACH OUR CONSUMERS EFFECTIVELY AND COST EFFICIENTLY. THEIR KNOWLEDGE, AND INVESTMENT IN MEDIA RESEARCH AND SOPHISTICATED ANALYTICAL TOOLS HAS HELPED DELIVER SIGNIFICANT IMPROVEMENTS IN THE VALUE OF OUR MEDIA SPEND AND THE OVERALL QUALITY OF OUR COMMUNICATION"

KEVIN GREEN, DIRECTOR OF THE MARKETING COMPETENCE CENTRE, PHILIPS.

Carat Trend is a system to build an increased understanding of the effects of media within the overall business and marketplace. It looks at trends and relates them to communication programmes and competitor activity.

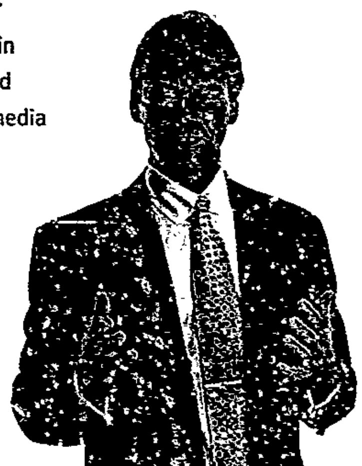
Stig Bogh Karlsen COO, Carat North America. "We learn systematically from every campaign we manage. We believe this rigorous process of "Lessons Learned" and feedback delivers the best media solution.

MMA delivers specific tools which model how communication works within the client's marketing mix. MMA can deliver optimisation of advertising spend and simulate numerous scenarios.

If the client wants to know the incremental investment in advertising needed to increase a brand share by 2% and how best to spend the investment – MMA can tell the media strategy definitively.

MMA has delivered modelling services for more than 80 major advertisers in the US and Europe.

If the client chooses to do so, MMA can deliver data to be integrated in Carat's 360° process to achieve total accountability and support strategy development."



Aegis at a glance

1997 Carat market ranking

	Market Share %	Market Ranking
Belgium	13.5	1
France	21.2	1
Germany	10.7	1
Italy	9.5	1=
Scandinavia	15.0	1
Spain	13.0	2
UK	12.6	1
Total Europe	12.2	1

Carat around the globe

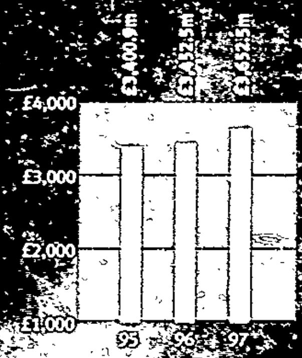
Global ranking

Comparison of net billing excluding production (Source: Advertising Age/Carat, 1996)	US $m
1 Dentsu	12,503
2 McCann-Erickson World-wide	8,217
3 Carat Group	7,019
4 BBDO World-wide	6,636
5 Y&R	6,541
6 J. Walter Thompson Co.	6,486
7 O&M World-wide	6,175
8 Hakuhodo	5,943

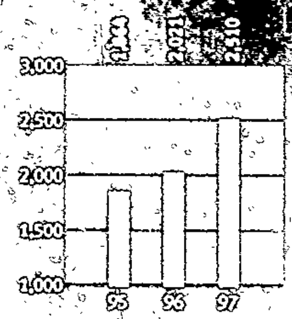
Carat's largest multi-national clients

American Express	Kraft Jacobs Suchard
Apple	Nissan
Bertelsmann	Pernod Ricards
Cadbury Schweppes	Philips
Chanel	Reckitt & Colman
Coca-Cola	Sara Lee
Danone Group	SmithKline Beecham
EMI/Virgin	The Walt Disney Company
Ferrero International	United Distillers
Henkel	Volkswagen

Turnover £m



Number of employees



Review of local operations

Asia Pacific

During 1997, the foundations for a regional network were laid with encouraging results from the initial markets in India and Hong Kong as well as the regional office in Hong Kong. A media company was acquired in Malaysia and the expectations are that further operations will be put in place (Thailand, Australia, Philippines and Taiwan) over the next 12 months as part of the development within the Asian market.

Carat International

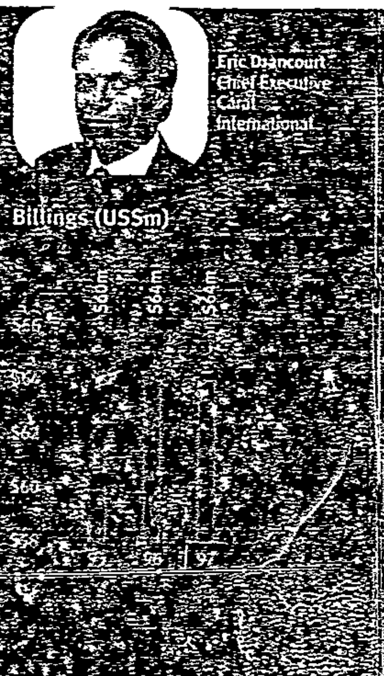
The objective of Carat International is to provide Group multi-local and international clients with a proactive media management service.

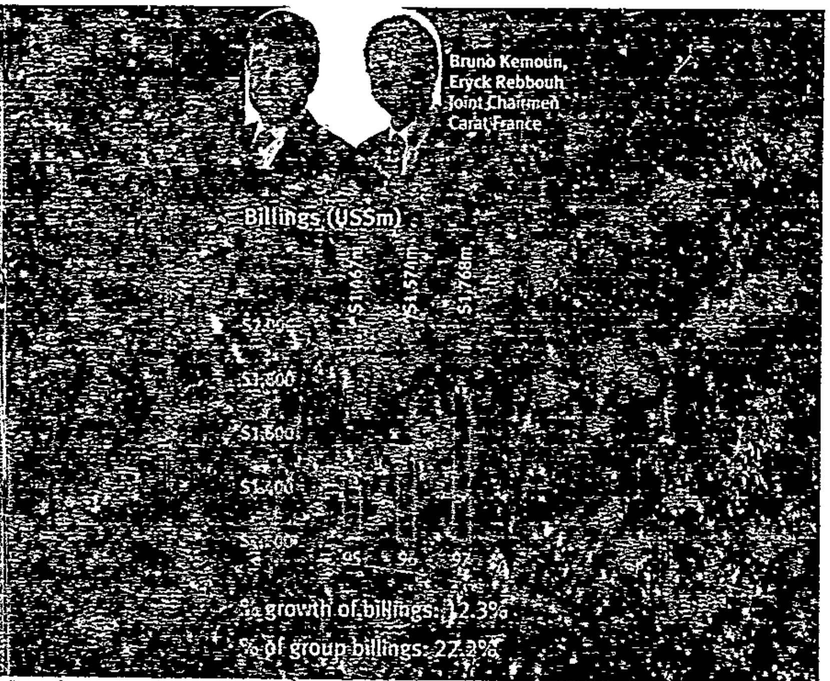
During the year the Group has continued to increase its share of international business with over 50% of turnover generated from multinational clients. Major multinational clients include Volkswagen, Danone Group, Philips, Disney, Reckitt & Colman, Apple Computers and United Distillers. The trend of enhanced client services and progress in new business wins is expected to continue in 1998.

France

Against an almost static French advertising market, Carat France has achieved an outstanding performance in 1997 growing turnover by 16.5% and reaching a 21% market share.

This performance is explained by important new business wins from KJS, Rover and TPS and the absence of major losses during the same period. The significant increases of media spend from some of our key clients (Carrefour, Disney and Coca Cola) and our strong presence in innovative and growing sectors such as mobile phones and cable or satellite TV further strengthen the position.





Review of local operations (continued)

Germany, Central and Eastern Europe

1997 saw HMS Carat extending their lead of the German market with an 11% market share, and billings growing well ahead of the market. An additional DM 280m turnover was gained with Coca Cola and Dr. Oetker Group and the purchase of MWO, a Munich-based pharmaceutical/OTC agency.

Turnover growth in Eastern Europe was up 110% with new business wins from Siemens & Michelin.

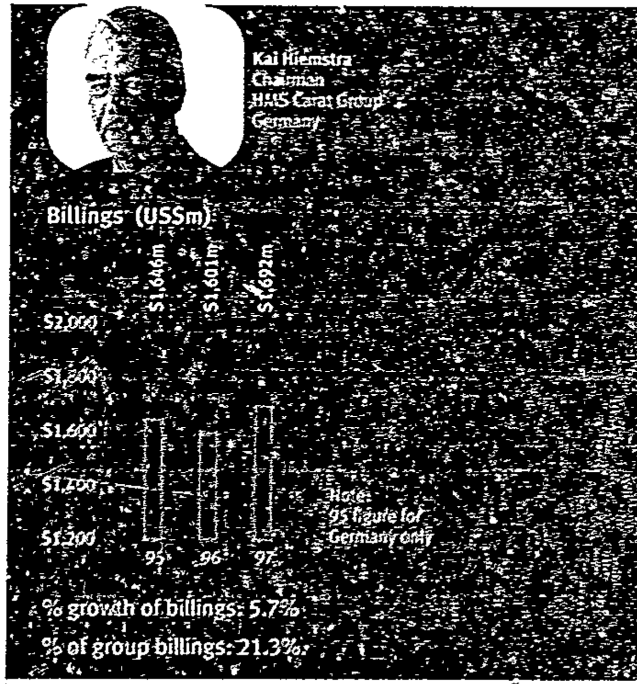
Italy

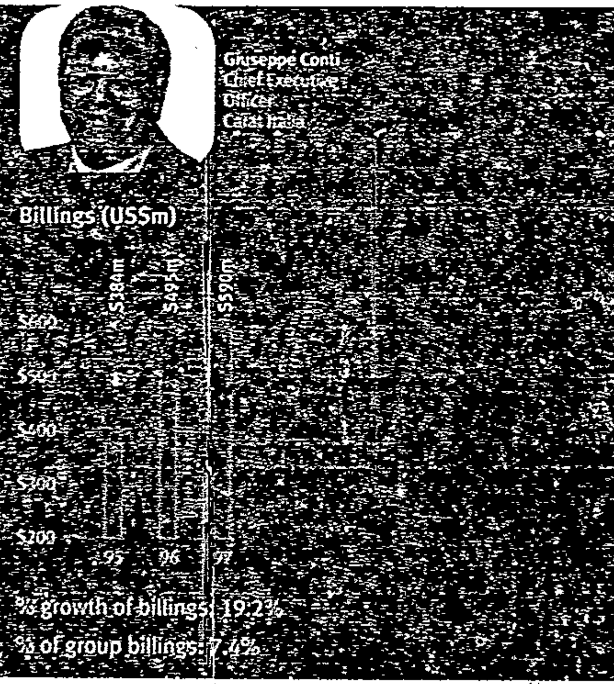
New clients won in 1997 include Omnitel and Aprilia. Carat Italia have consistently delivered results well above the market.

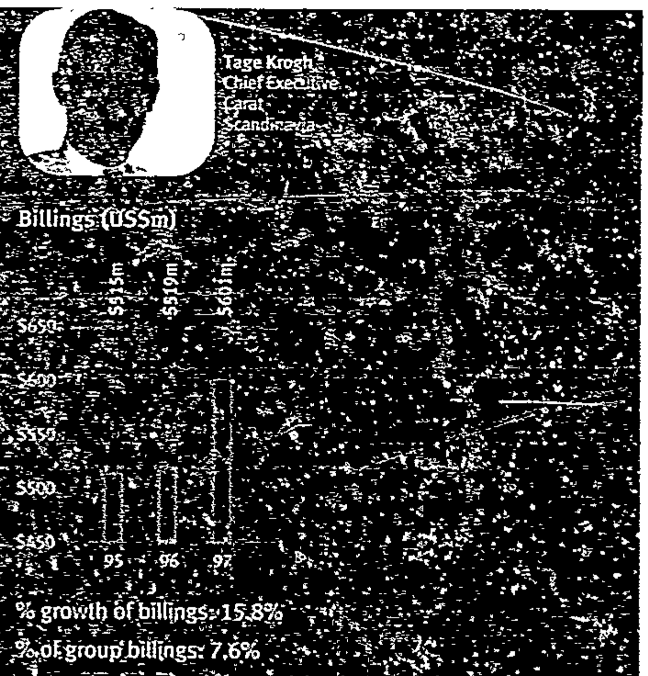
Growth in 1997 continued to be healthy with significant success in new business wins. Billings grew well ahead of the market and Carat Italia has almost 10% market share, the leader in direct clients handling.

Scandinavia

Scandinavia has had a strong new business record in 1997. In Norway new business gains have exceeded projections. The economy in Denmark is one of the strongest in Europe and increase in advertising expenditure is expected to be approximately 6%. Finland have gained key new key clients, namely Coca Cola, ICL and Rautakiria. Sweden has completed a substantial restructuring which we are confident will address a disappointing performance in 1997 and provide a firm base for future growth. Finally, we have acquired Mediekompetens, in Sweden, a very successful addition to our regional presence.







Spain and Portugal

Carat España has maintained its strong market position during 1997 with a good financial performance. The significant client gain for 1997 was Telefonica, the dominating force in Spanish telecommunications. Other major new business wins and increased expenditure from existing clients indicate a positive development in 1998 despite an anticipated sluggish market growth of only 3%.

Carat Portugal made significant progress in 1997 with a 75% increase in billings. Major accounts won during the year included Reckitt & Colman, Fersado, Novartis, Minute Maid and EEC.

United Kingdom

Carat UK maintained its position as the leading media specialist in the UK, with all operating units delivering revenue growth.

1997 saw a number of organisational developments in the UK – to enable us to provide our clients with a more focused service. Our aim is to provide strategic communication planning across all media from direct marketing to display advertising and our new structure will help to facilitate this.

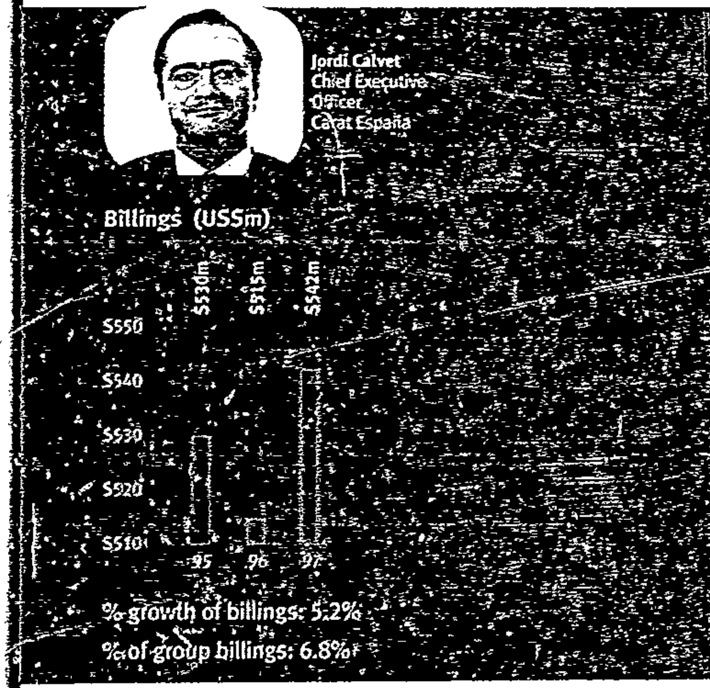
Our turnover grew ahead of the market and we achieved a number of new business gains, notably COI, Royal Mail, Pillsbury and Apple.

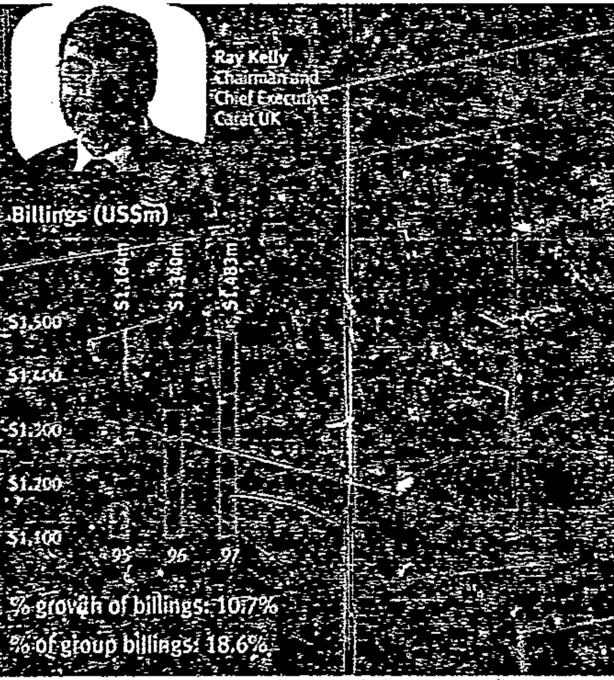
United States

Carat North America had an outstanding year in 1997. MBS, ICG and Media Marketing Assessment (MMA), the three acquisitions made in late 1996/early 1997 are all integrating well into the Group.

Carat ICG gained $160m of new business, including the Ameritech account ($100m). MMA also had an excellent year and continues to drive its market leadership in providing advertising effectiveness consultancy to major international clients. New client wins include Nabisco Food and Clorox.

Carat MBS has also gained significant new business with Alberto-Culver becoming their first Carat Group international client.





Financial review

The 1997 results demonstrate the Group's continued growth despite the strength of sterling. All main areas of the business performed well and new business gains were at a record high. The Group is pleased with the success and contribution of its recent acquisitions. Turnover and margins both contributed to the strong financial performance. Cash flow continues to be a key factor in overall business success.

Trading overview

During 1997 the Group's billings (defined as the annualised value of media purchased on behalf of clients) increased by 21%. Market share strengthened and we maintained our position as market leaders in nearly all the principal European advertising markets. At the same time we have made substantial progress in the United States and have also been developing our Asia Pacific operations.

Turnover

Although the growth in reported turnover was at 6%, on a constant currency basis turnover increased by 21%. Excluding acquisitions, turnover attributable to the underlying business improved by 15% on a constant currency basis.

Gross profit

Gross profit at £192 million increased by 7% over 1996. On a constant currency basis this improvement was 22%. These results reflect both increased volume and higher margins.

Gross margins rose again, up to 5.3% as compared to 5.2% last year. We have now seen an improvement in margins over the last three years, reflecting the upgrade in the Group's core products and extensions into new value-added areas.

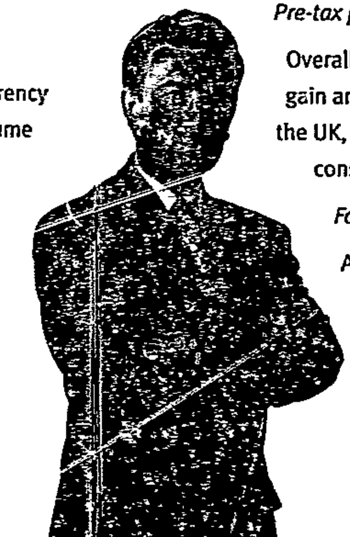
Gross profit remains the principal focus of the Group's strategic growth plans. The Group is committed to fundamental long-term development in this area.

Operating costs

Operating costs rose by 7% as compared to 1996. On a constant currency basis this was 22%. Much of the cost increase reflects recent acquisitions, geographical expansion and extensions to the Group's range of services. Excluding these, like for like costs increased by 8% on a constant currency basis. Operating margins were stable at 23% in line with 1996. Like for like operating margins were 25%. These margins continue to compare well against the Group's competition.

Expenditure on research during 1997 was approximately £15 million, consistent with 1996, reflecting the Group's substantial efforts to develop knowledge and skills. The Group maintains its commitment to achieve operating efficiencies wherever possible. Initiatives in 1997 included a focus on international client servicing and also information technology where the CaratNet groupware system was established to facilitate communications and sharing of information.

The total staff complement at 31 December 1997 was 2,510 as compared to 2,021 at 31 December 1996. Acquisitions in 1997 accounted for 310 of this increase. Consistent with preceding years approximately two-thirds of the Group's operating expenses are related to personnel.



Pre-tax profits

Overall, pre-tax profits have increased by 15%. Excluding a non-recurring gain arising on the sale of a minority interest in Manning Gottlieb Media in the UK, pre-tax profits were £43.5 million, up 10% on 1996. Expressed on a constant currency basis, this improvement in underlying profit was 28%.

Foreign exchange

As noted above, the 1997 results were affected by adverse foreign exchange movements due to the strength of sterling. The majority of the Group's profits are earned outside of the UK. The overall impact of foreign exchange on profits in 1997 was £7.2 million (1996: £0.3 million).

RIGHT: COLIN DAY, GROUP FINANCE DIRECTOR.

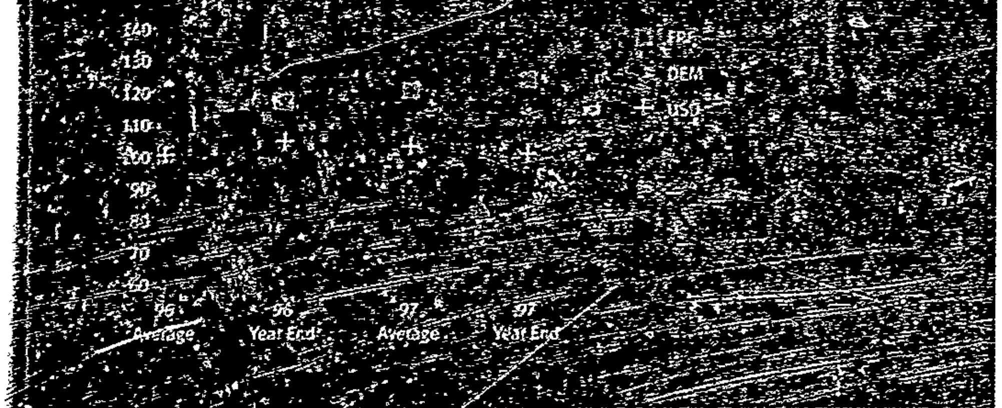
Borrowings, interest and cash flow

Working capital management continues to be a key element of the treasury management programme. As at 31 December 1997 the Group had net indebtedness of £2.2 million (1996: £7.6 million). The Group's net interest charge (including the amortisation of refinancing costs) was £0.9 million in 1997. This compares to £1.2 million in 1996. Included within the interest charge is £0.6 million relating to dividends payable on the £10.6 million of preference shares issued in part consideration for the acquisition of International Communications Group. Excluding this amount the net interest charge would have been £0.3 million.

The Group continues to benefit from efficient cash management resulting in reductions in net debt, and consequently, net interest. During 1997 the Group repaid term borrowings of £8.4 million.

Operating cash flow during the year was £54.5 million (1996: £42.7 million) or 124% of operating profit. This represents a 28% improvement over the preceding year. Free cash flow was £31 million. Positive cash flow and enhanced treasury management are key factors enabling the Group's strategic investment objectives to be maintained.

Movement in Sterling (average and year end) exchange rates against major currencies



Taxation

The Group's tax charge in the profit and loss account is at an underlying effective rate of 28% (1996: 27%). The Group's effective tax rate continues to be reduced by the offset of tax losses brought forward. An upward trend in the effective tax rate is expected as tax losses are utilised in future years.

Profit for the financial year and shareholders' funds

Profit for the financial year attributable to shareholders (before payment of the dividend on the ordinary shares) increased to £32.0 million from £27.2 million in 1996.

Basic earnings per share increased by 17% from 3.3 pence to 3.8 pence. Fully diluted earnings per share improved by 16% from 3.0 pence to 3.5 pence.

Shareholders' funds have been charged with goodwill written off of £40.0 million (1996: £18.4 million). This arises principally in respect of the acquisitions undertaken in the year and also the purchase of certain outstanding minority interests.

An interim dividend of 0.3 pence per share was paid as a Foreign Income Dividend ("FID"). A final dividend of 0.4 pence per share will be proposed, also to be paid as a FID. This represents a dividend for the full year of 0.7 pence per share, an increase of 17% over 1996. Payment of the dividend as a FID enables the Group to recover otherwise irrecoverable Advance Corporation Tax.

Acquisitions

During 1997 the Group completed seven acquisitions focused around its strategic goals of enhancing and broadening its range of services and expanding globally.

Details of these acquisitions are given in note 20 of the financial statements.

The total upfront investment in these acquisitions was approximately £24 million and all are expected to be earnings enhancing. In February 1998 agreement was reached to acquire Halmarick Media in Australia. The initial cost for this was £1.7 million and this purchase is also expected to have a positive impact on earnings.

As a result of the transactions undertaken during 1997 deferred consideration related to acquisitions have increased to £21.5 million at 31 December 1997. In each instance payment of these amounts is subject to challenging growth objectives.

	Year ended 31 December 1997	Year ended 31 December 1996	Increase/(Decrease) Historical rates	Increase/(Decrease) Constant currency
Trading results				
Turnover	£3,652.5m	£3,452.5m	6%	21%
Gross profit	£191.8m	£179.5m	7%	22%
% Gross income to turnover	5.3%	5.2%		
Operating profit	£43.9m	£41.9m	5%	21%
% Operating profit to gross income	23%	23%		
Profit before tax	£45.6m	£39.6m	15%	33%
Effective underlying tax rate	28%	27%		
Profit for the financial year	£32.8m	£28.0m	17%	34%
Shareholder returns				
Earnings per share				
– basic	3.8p	3.3p	17%	34%
– fully diluted	3.5p	3.0p	16%	31%
Ordinary dividend per share				
– interim	0.3p	0.25p	20%	20%
– final	0.4p	0.35p	14%	14%
Total	0.7p	0.60p	17%	17%
Cash flow				
Operating cash flow	£54.5m	£42.7m	28%	43%
Reduction in net debt	£5.4m	£10.3m		
Net debt at year end	£2.2m	£7.6m	(71%)	(137%)

The Group is currently assessing a number of new development opportunities in markets including Thailand, the Philippines, Taiwan, Australia and North America. It is hoped that most of these will be concluded in the first half of 1998.

Accounting policies

The 1997 accounts of the Group have been prepared on a consistent basis in accordance with applicable accounting standards.

Treasury management

The Group's treasury function is charged with the objective of minimising financial risks whilst providing adequate liquidity for the Group's activities. There is a central treasury function which interacts closely with those in the individual operations. The conceptual framework for treasury within the Group is to identify risks and to provide guidelines on deposits, foreign exchange and other areas to minimise exposures. The Group does not engage in speculative transactions.

The Board receives regular reports from the treasury department and they also review and approve all counterparty limits. Principal currency exposures arise from results denominated in foreign currencies.

Internal control

Consistent with previous years the Group has maintained its policy to examine the internal controls operating within the individual businesses. This work is undertaken on an ongoing basis and involves examining all businesses and all aspects of their operations using a rotational approach. During 1997 particular emphasis was placed on billing and payment cycles, transaction management and treasury systems. For 1998 the plan is to focus on Year 2000 computer system issues and also to ensure that the Group is fully prepared for the implementation of European Monetary Union.

Conclusion

The Group's results continue to improve. Margin growth and efficiencies should be sustained with the objective of enhancing profits. These areas remain firmly in focus as, together with strong positive cash flow, they are the Group's principal financial drivers. The strong financial performance in 1997 ensures that the Group is well placed to take advantage of future opportunities as they arise.

COLIN DAY, GROUP FINANCE DIRECTOR

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 for 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.

Ray Kelly
Chairman and Chief Executive, Carat UK
Ray 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.

John Amerman
Non-Executive
John Amerman was appointed to the Board on 12 December 1997. He is the former Chairman and Chief executive of Mattel Inc. and remains a director of that company. Prior to joining Mattel, he was President of a division of Warner Lambert and has also held a senior position with Colgate-Palmolive.

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.

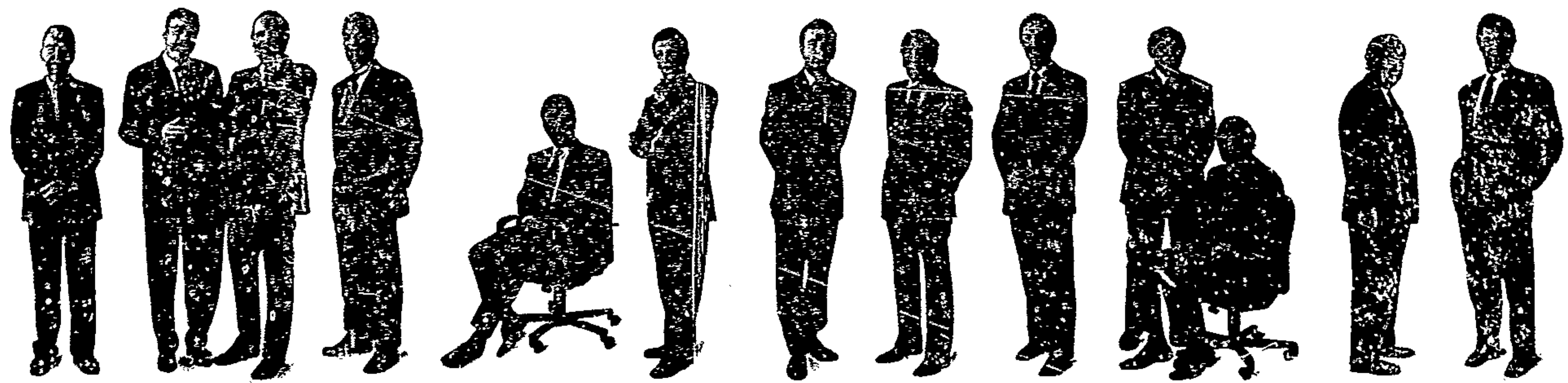
Dominic Shorthouse
Non-Executive
Dominic Shorthouse was appointed to the Board on 16 September 1992. He is a managing director of EM Warburg, Pincus & Co International Ltd. He is also a director of Argent Group plc, Channel 5 Broadcasting Limited, Esprit Telecom Group plc, WEW Group plc and a number 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 EM Warburg, Pincus & Co., LLC.

From left to right:
Kai Hiemstra, Ray Kelly, Philippe Villin, John Amerman, Bruno Kemoun, Eryck Rebbouh, Colin Day, Frank S Law CBE, Crispin Davis, Sir Peter Thompson, Sir Kit McMahon, John Vogelstein and Dominic Shorthouse.



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
Ray Kelly
Bruno Kemoun
Eryck Rebbouh
John Amerman, *non-Executive*
Sir Kit McMahon, *non-Executive*
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, Carat España*
Giuseppe Conti, *Chief Executive, Carat Italia*
Pat Doble, *Group Marketing Director*
Eric Drancourt, *Chief Executive, Carat International*
Stig Bogh Karlsen, *Chief Operating Officer, Carat North America*
Tage Krogh, *Chief Executive, Carat Scandinavia*
William Skerrett, *Group Personnel Director*
Howard Wang, *Chief Executive Officer, Carat Asia Pacific*
Eléonore Sauerwein, *Group Legal Director & Secretary to the Carat Executive*

Company Secretary
John Rowland

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Fax: 0171 470 5099

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

Bankers
HSBC Investment Bank plc
10 Queen Street Place
Thames Exchange
London EC4R 1BL

Registrars
Computershare Services 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 1997.

Results and dividends

The profit and loss account is set out on page 36 and shows a retained profit for the financial year of £26.2 million (1996: £22.2 million) all of which is transferred to reserves.

An interim dividend of 0.30p per share was paid on 7 October 1997 as a Foreign Income Dividend ("FID") to both ordinary and preference shareholders. The directors recommend a final dividend for the year of 0.40p per share which, if approved at the Annual Gereral Meeting, will be paid as a FID on 2 July 1998 to both ordinary and preference shareholders registered at 12 June 1998. The total dividend for the year will then amount to 0.70p per share (1996: 0.60p). Further details on dividends paid to preference shareholders are given in note 8 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 set out in the statements on pages 3 to 23.

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 (1996: £14.8 million) on research and development.

Donations

The Company made charitable donations of £8,925 (1996: £6,977) during the year in the United Kingdom. There were no political donations during the year in the United Kingdom (1996: £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. In addition we publish the newsletter, *Carat Word*, which is sent to all our employees.

Environment

The Group is committed to conducting its business in a manner which shows responsibility towards the environment and in ensuring high standards of health and safety for its employees, visitors and the general public. It complies with all statutory and mandatory requirements.

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

At 31 December 1997, the Group had 62 days purchases outstanding. The creditor day analysis is not applicable to the holding company.

Report of the directors (continued)

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 pages 29 to 32.

In accordance with the Company's Articles of Association, Crispin Davis, Colin Day, Kai Hiemstra and Bruno Kemoun retire from the Board by rotation and, being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting. John Amerman, who was appointed to the Board subsequent to the Annual General Meeting held in 1997, offers himself for election. He was appointed on 12 December 1997 and does not have a service contract with the Company.

Crispin Davis has a service contract with Aegis Group plc which is terminable upon 24 months' notice.

Colin Day has a service contract with Aegis Group plc which is terminable upon 18 months' notice.

Kai Hiemstra has a service contract with HMS Media-Service GmbH which expires on 31 December 1998.

Bruno Kemoun has a service contract with Carat France SA which is terminable upon six months' notice and in the event that his service agreement is terminated (other than by reason of misconduct) a payment equivalent to 18 months' remuneration must be made.

On 31 December 1997, Charles Hochman, a non-executive director, resigned of his own volition after completing over seven years' service with the Company.

Substantial shareholdings

In accordance with the requirements of the London Stock Exchange as at 20 March 1998, the following interests in the issued ordinary shares of 5p each of Aegis Group plc are noted:

Affiliates of Warburg, Pincus & Co	264,862,286	31.78%
FMR Corp	48,089,907	5.07%
SFEC II (Note)	38,010,235	4.56%
Gilbert Gross	36,861,700	4.42%

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.

Share capital

Details of the movements in authorised and issued share capital during the year are given in note 18 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 set out in the Notice of Annual General Meeting on pages 61 and 62 provides the directors with authority to allot securities in the Company up to an aggregate nominal value of £13,890,000.

If passed, the resolution will enable the directors to allot a maximum of 277,800,000 ordinary shares which represent approximately 33% of the current issued ordinary share capital as at 28 February 1998, 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 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 £2,083,000. The authority conferred by resolution 10 is limited as regards issues of shares other than by way of rights issues to 41,660,000 ordinary shares amounting to approximately 5% of the issued ordinary share capital of the Company as at 28 February 1998. 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.

Report of the directors (continued)

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 41,734,000 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 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. 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. The directors do not have any present intention of using this authority.

Management Incentive Scheme

A new management incentive scheme for a small number of key senior executives of the Group will be proposed as resolution 12 at the forthcoming Annual General Meeting. Full details are set out in the circular to shareholders accompanying these Report and Accounts.

Auditors

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

Corporate Governance

Details concerning the Group's arrangements relating to Corporate Governance and its compliance with the Cadbury Code of Best Practice are given on page 33. The Report of the remuneration committee is set out on pages 29 to 32.

Directors' responsibilities

The following statement, which should be read in conjunction with the auditors' statement of auditors' responsibilities set out on page 35 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 36 to 60, 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.

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.

By order of the Board

John Rowland FCIS

Company Secretary

11A West Halkin Street

London SW1X 8JL

20 March 1998

Report of the remuneration committee

The directors believe that the constitution and operation of the Committee complies throughout the period 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.

Compliance
The Code has been adopted by the Company. The Report of the Auditors on page 34 confirms that they have reviewed those areas of this report specified for their review.

Composition of the Committee
Members of the Committee are disclosed on page 33 within the section on Corporate Governance.

Policy on remuneration of Executive directors
Remuneration packages which are offered by the Company to its Executive directors are designed to be competitive in order to attract, retain and motivate Executive directors of the appropriate 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.

- Share options
  Grants of options are made by the Remuneration Committee under the existing Executive Share Option Schemes which were introduced in 1995. 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 of companies in the top third of the "FTSE 100".

Pensions
UK Executive directors participate in defined contribution Group pension schemes. Pensionable salary is limited to basic salary excluding all bonuses and other benefits. Where UK Plan benefits exceed Inland Revenue limits, 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.

Report of the remuneration committee (continued)

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 agreement 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 1997 £'000	Total 1996 £'000	Pensions 1997 £'000	Pensions 1996 £'000
John Amerman	(a)	–	–	–	–	–	–	–	–	–
Crispin Davis	(b)	473	–	17	182	299	971	633	229	204
Colin Day		210	–	10	99	–	319	275	41	35
Kai Hiemstra	(c)	315	–	15	444	–	774	997	–	–
Charles Hochman	(d)	–	25	–	–	–	25	25	–	–
Ray Kelly	(e)(h)	190	–	18	10	–	218	240	169	66
Bruno Kemoun	(f)(h)	241	–	3	–	111	355	371	–	3
Frank S Law CBE		100	–	17	–	–	117	114	–	–
Sir Kit McMahon		–	25	–	–	–	25	25	–	–
Eryck Rebbouh	(f)(h)	241	–	3	–	111	355	371	–	3
Dominic Shorthouse		–	–	–	–	–	–	–	–	–
Sir Peter Thompson		–	25	–	–	–	25	25	–	–
Philippe Villin	(g)	–	25	–	–	84	109	94	–	–
John Vogelstein		–	–	–	–	–	–	–	–	–
Total		1,770	100	83	735	605	3,293	3,170	439	328

Notes:
(a) John Amerman was appointed on 12 December 1997 and opted to receive his fees of £25,000 per annum in ordinary shares.
(b) A long-term bonus, subject to performance criteria including profitability set by the Remuneration Committee, will be paid to Crispin Davis upon publication of the annual report for the year ended 31 December 1997. This amount of £299,000 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 Heimstra under the agreement to purchase the remaining 50% of HMS Carat entered into on 19 October 1993.
(d) Charles Hochman resigned on 31 December 1997.

Report of the remuneration committee (continued)

(e) Ray Kelly elected to receive part of his 1997 salary and bonus as additional pension contributions. In past years he has also elected to receive part of his bonus as additional pension contributions.

(f) Bruno Kemoun and Eryck Rebbouh are two of the shareholders of Societe Internationale de Conseil et de 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 Rebbouh and Eryck Rebbouh from SICC are shown in "Basic salary" and their proportion of the profit of SICC is shown as "Other" emoluments.

(g) Philippe Villin has a consultancy agreement with Carat France SA which was entered into on 1 June 1995 and fees of FFr 800,000 were paid in 1997 in relation to that agreement.

(h) In addition, a payment of £608,273 each will be paid in 1998 to Messrs Kelly, Kemoun and Rebbouh by affiliates of Warburg, Pincus. These payments were established in 1994 for *them in the light of losses incurred on Aegis shares taken as payment for shares in businesses sold to Aegis and, in the case of Messrs Kemoun and Rebbouh, for the renunciation of an option to subscribe for Aegis shares previously granted to them. These payments were conditional, inter alia, on them remaining in the employment of Aegis for at least three years.*

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

There were five directors who had benefits accruing under money purchase schemes. 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 1997.

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 20 March 1998, 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		
	13 March 1998	31 December 1997	31 December 1996	13 March 1998	31 December 1997	31 December 1996
John Amerman	–	–	n/a	–	–	n/a
Crispin Davis	100,300	100,300	100,300	–	–	–
Colin Day	75,905	75,905	75,879	–	–	–
Kai Hiemstra	–	–	–	–	–	–
Charles Hochman	n/a	4,361,567	4,361,567	n/a	10,968	10,968
Ray Kelly	287,188	287,188	287,188	–	–	–
Bruno Kemoun	4,786,432	4,786,432	8,786,432	–	–	–
Frank S Law CBE	1,026,752	1,026,752	1,026,752	3,198	3,198	3,198
Sir Kit McMahon	136,860	136,860	136,860	9,390	9,390	9,390
Eryck Rebbouh	4,786,432	4,786,432	8,786,432	–	–	–
Dominic Shorthouse	–	–	–	–	–	–
Sir Peter Thompson	193,606	193,606	193,606	4,069	4,069	4,069
Philippe Villin	–	–	–	–	–	–
John Vogelstein	–	–	–	–	–	–

The middle market price of the ordinary shares of 5p each as derived from the Stock Exchange Daily Official List on 31 December 1997 was 68.50p and the range during the year was 55.25p to 68.75p. The share price on 13 March 1998, the latest practicable date prior to publication of the Annual Report and Accounts, was 77p and the warrant price on 13 March 1998 was 46.25p. The variable rate convertible cumulative redeemable preference shares 2003 of 5p are not listed.

Report of the remuneration committee (continued)

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
	–	321,569	–	321,569	63.75p	8.7.2000	7.7.2007
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
	–	54,435	–	54,435	63.75p	8.7.2000	7.7.2007
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
	–	349,804	–	349,804	63.75p	8.7.2000	7.7.2007
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
	–	364,050	–	349,804	63.75p	8.7.2000	7.7.2007
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
	–	364,050	–	364,050	63.75p	8.7.2000	7.7.2007

Note: The Company was not able to issue options to Crispin Davis under the approved Executive Share Option Scheme in October 1994. He was, however, issued with an option under the unapproved Executive Share Option Scheme. There is an arrangement between Crispin Davis and the Company whereby he may be compensated for certain adverse aspects associated with the unapproved option so granted.

Options granted during the year are subject to performance conditions as described in the paragraph headed "Share options" on page 29. No options were exercised by directors during the year. However, on 7 January 1998, Ray Kelly exercised and immediately sold two share options, one in respect of 230,375 shares at a price of 29.3p per share and a second in respect of 25,000 shares at a price of 28.5p per share. They were all sold at 67p per share and the gross gain was £96,476. No other directors exercised options during the period ended 20 March 1998.

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 results and 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 external 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 of directors 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. An 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 Board of directors has 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. 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
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 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.

Report of the auditors

Report on the 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 on page 33 concerning the Group's compliance with the paragraphs of the Cadbury 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 page 33 and on going concern on page 33 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 33 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

20 March 1998

Report of the auditors

Audit opinion

To the members of Aegis Group plc

We have audited the financial statements on pages 36 to 60 (including the additional disclosures on pages 30 and 31 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 41 and 42.

Respective responsibilities of directors and auditors

As described on page 28, 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 circumstances of the Company and of the Group, 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 1997 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

Chartered Accountants
and Registered Auditors

Southwark Towers
32 London Bridge Street
London SE1 9SY

20 March 1998

Consolidated profit and loss account
for the year ended 31 December 1997

	Notes	1997 £'m	1996 £'m
Turnover:			
– continuing operations		3,447.1	3,428.1
– acquisitions		205.4	24.4
	2	3,652.5	3,452.5
Cost of sales		(3,460.7)	(3,273.0)
Gross profit		191.8	179.5
Operating expenses		(147.9)	(137.6)
Operating profit:			
– continuing operations		42.4	41.8
– acquisitions		1.5	0.1
		43.9	41.9
Income from interests in associated undertakings		0.5	0.3
Profit on disposal of fixed asset investments	3	2.1	–
Interest and similar charges:			
– interest receivable		4.3	5.6
– interest payable	4	(4.9)	(6.3)
– amortisation of refinancing costs	4	(0.3)	(0.5)
		(0.9)	(1.2)
– write-off of refinancing costs	4	–	(1.4)
Net interest payable and similar charges		(0.9)	(2.6)
Profit on ordinary activities before taxation	2, 5, 6	45.6	39.6
Tax on profit on ordinary activities	7	(12.2)	(10.7)
Profit on ordinary activities after taxation		33.4	28.9
Equity minority interests		(0.6)	(0.9)
Profit attributable to members of the parent company		32.8	28.0
Dividends:			
– preference	8	(0.8)	(0.8)
– ordinary	8	(5.8)	(5.0)
Retained profit for the financial year		26.2	22.2
Earnings per share:	9		
Basic		3.8p	3.3p
– Profit on disposal of fixed asset investments		0.2p	–
– Underlying basic earnings per share		3.6p	3.3p
Fully diluted		3.5p	3.0p

The result from underlying operations excludes the exceptional profit of £2.1 million realised on the disposal of fixed asset investments (note 3).

Consolidated statement of total recognised gains and losses

for the year ended 31 December 1997

	1997 £'m	1996 £'m
Profit for the financial year	32.8	28.0
Currency translation differences on foreign currency net investments	1.3	6.8
Total recognised gains and losses relating to the year	34.1	34.8

Reconciliation of movements in shareholders' funds

for the year ended 31 December 1997

	Group		Company	
	1997 £'m	1996 £'m	1997 £'m	1996 £'m
Profit for the financial year	32.8	28.0	4.5	102.5
Preference dividends	(0.8)	(0.8)	(0.8)	(0.8)
Ordinary dividends	(5.8)	(5.0)	(5.8)	(5.0)
	26.2	22.2	(2.1)	96.7
Issue of shares by the Company	0.8	0.7	0.8	0.7
Goodwill written off in the year	(40.0)	(18.4)	–	–
Currency translation differences on foreign currency net investments	1.3	6.8	–	–
Net (decrease)/increase in shareholders' funds	(11.7)	11.3	(1.3)	97.4
Shareholders' funds at 1 January	(95.8)	(107.1)	244.8	147.4
Shareholders' funds at 31 December	(107.5)	(95.8)	243.5	244.8

Details of goodwill written off in the year are set out in note 20 to the financial statements.

Note of historical cost profit and losses

for the year ended 31 December 1997

There is no material difference between the reported results for 1997 and 1996 and the results for those years restated on an unmodified historical cost basis.

Balance sheets

at 31 December 1997

	Notes	Group 1997 £'m	Group 1996 £'m	Company 1997 £'m	Company 1996 £'m
Fixed assets					
Intangible assets	10	0.8	–	–	–
Tangible assets	11	13.5	13.3	0.5	0.3
Investments	12	1.3	2.1	404.5	398.1
		15.6	15.4	405.0	398.4
Current assets					
Debtors	13	578.0	513.0	26.1	31.6
Investments	14	0.8	–	–	–
Cash at bank and in hand		61.6	49.1	0.8	0.3
		640.4	562.1	26.9	31.9
Creditors: amounts falling due within one year	15	(733.7)	(641.7)	(185.9)	(180.2)
Net current liabilities		(93.3)	(79.6)	(159.0)	(148.3)
Total assets less current liabilities		(77.7)	(64.2)	246.0	250.1
Creditors: amounts falling due after more than one year	16	(27.8)	(28.5)	(2.3)	(3.0)
Provisions for liabilities and charges	17	(0.2)	(2.3)	(0.2)	(2.3)
		(105.7)	(95.0)	243.5	244.8
Capital and reserves					
Issued, allotted, called up and fully paid share capital:	18				
– equity		41.7	41.5	41.7	41.5
– non-equity		3.2	3.2	3.2	3.2
		44.9	44.7	44.9	44.7
Share premium account:	19				
– equity		33.8	33.2	33.8	33.2
– non-equity		10.7	10.7	10.7	10.7
		44.5	43.9	44.5	43.9
Capital redemption reserve	19	0.2	0.2	0.2	0.2
Special reserve	19	21.9	22.7	21.9	22.7
Goodwill reserve	19	–	(525.2)	–	–
Merger reserve	19	–	–	13.0	13.0
Profit and loss account	19	(219.0)	317.9	119.0	120.3
Shareholders' funds		(107.5)	(95.8)	243.5	244.8
Analysed as:					
– equity		(121.4)	(109.7)	229.6	230.9
– non-equity		13.9	13.9	13.9	13.9
		(107.5)	(95.8)	243.5	244.8
Equity minority interests		1.8	0.8	–	–
		(105.7)	(95.0)	243.5	244.8

Crispin Davis (Director)
Colin Day (Director)
20 March 1998

Consolidated cash flow statement
for the year ended 31 December 1997

	1997 £'m	1996 £'m
Net cash flow from operating activities	54.5	42.7
Returns on investments and servicing of finance		
Interest received	4.3	5.6
Interest paid	(4.7)	(6.6)
Issue costs of current loan	–	(1.0)
Interest element of finance lease rental payments	(0.1)	(0.1)
Preference dividends paid	(0.8)	(0.6)
Dividends paid to minority interests	(0.5)	(1.0)
Net cash flow for returns on investments and servicing of finance	(1.8)	(3.7)
Taxation	(12.3)	(10.1)
Capital expenditure and financial investment		
Purchase of intangible fixed assets	(0.8)	–
Purchase of tangible fixed assets	(5.9)	(4.8)
Sale of tangible fixed assets	0.7	0.6
Purchase of investments	–	(0.1)
Sale of investments	2.5	–
Net cash flow for capital expenditure and financial investments	(3.5)	(4.3)
Acquisitions and disposals		
Purchase of subsidiary undertakings and minority interests (note 20)	(13.2)	(11.8)
Cash acquired on purchase of subsidiary undertakings (note 20)	4.4	1.4
Sale of subsidiary undertakings	–	0.1
Investment in associated undertakings	–	(0.9)
Deferred payments on prior period acquisitions	(3.5)	(5.4)
Net cash flow for acquisitions and disposals	(12.3)	(16.6)
Equity dividends paid	(5.4)	(2.1)
Cash flow before use of liquid resources and financing	19.2	5.9
Management of liquid resources		
Purchase of short-term equity-indexed notes	(0.8)	–
Sale of short-term money market investments	–	5.6
Net cash flow for management of liquid resources	(0.8)	5.6
Financing		
Issue of share capital	0.8	0.7
Debt due after more than one year		
– current secured loan received	–	26.9
– repayment of old secured loan	–	(32.5)
– repayment of current secured loan	(8.4)	(7.8)
Capital element of finance lease rental payments	(0.3)	(0.2)
Net cash flow from financing	(7.9)	(12.9)
Increase/(decrease) in cash in the year	10.5	(1.4)

Sale of investments include £2.4 million realised on disposal of the Group's shareholding in Manning Gottlieb Media Limited (note 3).
Readily disposable short-term investments and deposits which are not repayable on demand without penalty are reported as liquid resources in the cash flow statement.
Notes to this consolidated cash flow statement are provided overleaf.

Notes to the consolidated cash flow statement
for the year ended 31 December 1997

	1997 £m	1996 £m
Reconciliation of operating profit to operating cash flow		
Operating profit	43.9	41.9
Depreciation charges	5.0	4.8
Dividends received from associated undertakings	0.4	0.1
(Increase)/decrease in debtors	(33.4)	41.0
Increase/(decrease) in creditors	38.6	(45.1)
Net cash flow from operating activities	54.5	42.7

Subsidiary undertakings acquired in the year contributed £2.0 million to the Group's net cash flow from operating activities.

	1997 £m	1996 £m
Reconciliation of net cash flow to movement in net debt		
Increase/(decrease) in cash in the year	10.5	(1.4)
Cash outflow from decrease in debt and lease financing	8.7	13.6
Change in net debt resulting from cash flows	19.2	12.2
Issue of preference shares by US subsidiary (note 20)	(10.6)	–
New finance lease obligations	(0.3)	(0.1)
Effect of foreign exchange rate changes	(2.9)	(1.8)
Movement in net debt in the year	5.4	10.3
Net debt at 1 January	(7.6)	(17.9)
Net debt at 31 December	(2.2)	(7.6)

	1 January 1997 £m	Cash flow £m	Other non-cash changes £m	Exchange movement £m	31 December 1997 £m
Analysis of net debt					
Cash in hand and at bank	49.1	18.4	–	(5.9)	61.6
Overdrafts	(38.2)	(7.8)	–	1.4	(44.6)
	10.9	10.6	–	(4.5)	17.0
Debt due within one year (note 20)	–	–	(10.6)	–	(10.6)
Debt due after more than one year	(17.8)	8.3	–	1.6	(7.9)
Net debt before finance lease obligations	(6.9)	18.9	(10.6)	(2.9)	(1.5)
Finance lease obligations	(0.7)	0.3	(0.3)	–	(0.7)
Total	(7.6)	19.2	(10.9)	(2.9)	(2.2)

Notes forming part of the financial statements

for the year ended 31 December 1997

1. Principal accounting policies

The financial statements have been prepared under the historical cost convention 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 1997. All inter-company balances and transactions are eliminated. The financial statements also include the Group's attributable share of associated undertakings' results up to 31 December 1997.

Goodwill

Goodwill on consolidation represents the excess of the fair value of the purchase consideration over the fair value of the separate net assets acquired. Goodwill, including any additional goodwill arising from the contingent capital payments set out in note 21, is written off against reserves in the year in which it arises. If a subsidiary or associated undertaking is subsequently sold, any goodwill arising on acquisition previously eliminated against reserves is written back to the profit and loss account.

Foreign currencies

Profit and loss accounts and cash flows in foreign currencies are translated into sterling at average rates. Assets and liabilities 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, associated undertakings or on borrowings hedging against these net assets, are taken directly to reserves in the consolidated financial statements. All other gains and losses on translation are dealt with in the profit and loss account.

Turnover

For statutory purposes turnover represents the value of media handled on behalf of clients, except for Italy where the business acts as agents for many clients who pay media invoices directly. Turnover 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.

Research and development

Research and development expenditure, including purchased software licences and development costs, is charged to the profit and loss account in the year in which it is incurred.

Intangible fixed assets and amortisation

The costs in establishing databases and mailing lists, where the information held will be sold, are capitalised and are amortised over their estimated useful economic life of three years.

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	1% – 5% per annum
Leasehold buildings	Over the period of the lease
Leasehold improvements	10% – 20% per annum or over the period of the lease, if shorter
Office furniture, fixtures, equipment & vehicles	10% – 50% per annum

Notes forming part of the financial statements (continued)

for the year ended 31 December 1997

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.

Other fixed asset investments

Other fixed asset investments are stated at cost less amounts written off in respect of any permanent diminution in value.

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.

Financial instruments

The costs of issue of capital instruments such as the issue costs of new debt are charged to the profit and loss account on an annual basis over the life of the instrument.

Notes forming part of the financial statements (continued)
for the year ended 31 December 1997

2. Net (liabilities)/assets and operating performance

	Net (liabilities)/assets		Profit/(loss) on ordinary activities before taxation		Turnover	
	1997 £'m	1996 £'m	1997 £'m	1996 £'m	1997 £'m	1996 £'m
Geographical analysis						
UK	(76.4)	(78.2)	0.4	–	630.1	598.8
Mainland Europe	8.9	(3.0)	41.5	41.9	2,681.1	2,829.2
USA and Asia Pacific	(38.2)	(13.8)	2.0	–	341.3	24.5
	(105.7)	(95.0)	43.9	41.9	3,652.5	3,452.5
Income from interests in associated undertakings			0.5	0.3		
Profit on disposal of fixed asset investments			2.1	–		
Net interest payable and similar charges			(0.9)	(1.2)		
Write-off of refinancing costs			–	(1.4)		
Profit on ordinary activities before taxation			45.6	39.6		

The result in the UK is stated after central costs. The Group's share of the net assets of associated undertakings of £0.4 million (1996: £0.7 million) are all located in mainland Europe.

The Group operates in only one business sector: media planning and buying. A further analysis of turnover by geographical area is set out below:

	1997 Local'm	1996 Local'm	1997 £'m	1996 £'m
France	8,765.8	7,499.9	919.9	935.3
Germany	2,252.5	2,066.8	795.5	875.8
UK	630.1	598.8	630.1	598.8
Scandinavia	4,280.9	3,778.9	342.3	358.8
Spain	72,077.8	69,566.5	301.0	349.7
Italy	322,543.0	307,288.0	115.7	126.8
Rest of Europe	N/A	N/A	206.7	182.8
USA and Asia Pacific	N/A	N/A	341.3	24.5
	N/A	N/A	3,652.5	3,452.5

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

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.

3. Profit on disposal of fixed asset investments
On 31 October 1997, the Group disposed of its 19.9% holding in Manning Gottlieb Media Limited for cash consideration of £2.4 million realising a gain of £2.1 million. Due to the availability of brought forward capital losses, there was no tax payable on the profit realised on the disposal of this investment.

Notes forming part of the financial statements (continued)

for the year ended 31 December 1997

4. Interest payable and similar charges

	1997 £'m	1996 £'m
Interest payable:		
On bank loans, overdrafts and other loans repayable within five years	2.9	3.2
Interest payable under finance lease and hire purchase contracts	0.1	0.1
Other charges	1.9	3.0
	4.9	6.3
Amortisation of refinancing costs	0.3	0.5
Write-off of refinancing costs	–	1.4
	5.2	8.2

In 1996, as a result of entering into new banking arrangements, refinancing costs of £1.4 million relating to the Group's previous banking facilities, deferred in accordance with FRS4, were written off to the profit and loss account. The cost of the new facilities (£1.0 million) was capitalised and is being written off over three years, representing the minimum period of the new arrangements.

5. Staff costs

	1997 £'m	1996 £'m
Staff costs consist of:		
Wages and salaries	76.2	68.2
Social security costs	15.0	15.0
Other pension costs	1.6	1.4
	92.8	84.6

The average number of full-time employees of the Group during the year, all of whom were employed in media planning and buying, was 2,266 (1996: 1,947). At 31 December 1997, there were 2,510 employees (1996: 2,021). The average number of full-time employees in the UK during the year was 483 (1996: 444).

Directors' remuneration is disclosed in the Report of the Remuneration Committee on page 30. The total amount of directors' remuneration in 1997 was £3.3 million (1996: £3.2 million).

6. Profit on ordinary activities before taxation

	1997 £'m	1996 £'m
This is stated after charging:		
Auditors' remuneration and expenses – audit services – UK*	0.1	0.1
– audit services – overseas	0.4	0.3
	0.5	0.4
Auditors' remuneration and expenses – non-audit services – UK	–	0.1
– non-audit services – overseas	0.1	–
	0.1	0.1
Depreciation of fixed assets	5.0	4.8
Operating lease rentals	7.4	7.2
Research and development costs	14.8	14.8
Profit on sale of fixed asset investments	2.1	–

*Auditors' remuneration and expenses payable by the Company were £0.1 million (1996: £0.1 million).

Notes forming part of the financial statements (continued)
for the year ended 31 December 1997

7. Tax on profit on ordinary activities

	1997 £'m	1996 £'m
UK corporation tax	–	–
Overseas taxation	12.1	10.7
Associated undertakings	0.1	–
	12.2	10.7

The effective rate of tax on the Group's underlying profits is 28%. As disclosed in note 3 above, there was no tax arising on the profit on disposal of the Group's 19.9% shareholding in Manning Gottlieb Media Limited.

8. Dividends

	1997 £'m	1996 £'m
Non-equity: Preference		
Variable rate convertible cumulative redeemable preference shares 2003 of 5p each		
– conventional dividend paid at 0.68p per share (31 December 1996: 0.68p)	0.4	0.4
– foreign income dividend paid at 0.3p per share (31 December 1996: 0.25p)	0.2	0.2
– foreign income dividend proposed at 0.4p per share (31 December 1996: 0.35p)	0.2	0.2
	0.8	0.8
Equity: Ordinary		
Ordinary shares of 5p each		
– interim dividend rate per share paid as a foreign income dividend	0.3p	0.25p
– final dividend proposed rate per share to be paid as a foreign income dividend	0.4p	0.35p
	0.7p	0.6p
	£'m	£'m
– interim dividend paid as a foreign income dividend	2.5	2.1
– final dividend proposed to be paid as a foreign income dividend	3.3	2.9
	5.8	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 accordance with the terms of issue, 1997 dividends paid on the variable rate convertible cumulative redeemable preference shares 2003 of 5p each were at the rate of 5%, part paid as a conventional dividend and part paid as a FID. The FID proposed of 0.4p per share will form part of the preference shareholders' 1998 dividend entitlement. Further details on non-equity preference share rights are set out in note 18.

The final dividend, if approved, will be paid as a FID on 2 July 1998 to all ordinary and preference shareholders on the register on 12 June 1998.

Notes forming part of the financial statements (continued)

for the year ended 31 December 1997

9. Earnings per ordinary share

	As reported 1997	Underlying 1997	As reported 1996
Earnings per ordinary share is calculated as follows:			
Basic			
Profit for the period	£32.0m	£29.9m	£27.2m
Average number of ordinary shares in issue	831.2m	831.2m	828.5m
Basic earnings per share	3.8p	3.6p	3.3p
Fully diluted			
Profit for the period	£35.2m	£33.1m	£29.9m
Average number of ordinary shares outstanding	996.6m	996.6m	984.2m
Fully diluted earnings per share	3.5p	3.3p	3.0p

The calculation of basic earnings per share is based on profit net of tax, minority interests and preference dividends.

The calculation of fully diluted earnings per share is based on profit for basic earnings per share adjusted for preference dividends and imputed income, net of tax, on the proceeds arising on the full conversion of outstanding warrants and exercise of options.

Underlying profits are calculated by adding back the profit on disposal of fixed asset investments of £2.1 million disclosed in note 3.

10. Intangible fixed assets

	Databases and mailing lists £m
Group:	
Cost at 1 January 1997	–
Additions	0.8
At 31 December 1997	0.8
Net book value	
At 31 December 1997	0.8
At 31 December 1996	–

Intangible fixed asset additions relate to the costs incurred in the initial compilation of the mailing lists and databases held by Consodata Spain SA. These costs are capitalised and amortised over their useful economic life of three years on a straight line basis.

The company has no intangible fixed assets (1996: £nil)

Notes forming part of the financial statements (continued)

for the year ended 31 December 1997

11. Tangible fixed assets

	Freehold land & buildings £m	Leasehold improvements £m	Office furniture, fixtures, equipment & vehicles £m	Total £m
Group:				
Cost at 1 January 1997	4.2	5.8	23.5	33.5
Additions	0.2	0.3	5.7	6.2
In subsidiaries acquired	–	0.2	1.1	1.3
Disposals	–	(0.1)	(4.0)	(4.1)
Exchange adjustments	(0.5)	(0.1)	(2.2)	(2.8)
At 31 December 1997	3.9	6.1	24.1	34.1
Depreciation at 1 January 1997	0.6	4.7	14.9	20.2
Provided for in the year	0.2	0.3	4.5	5.0
In subsidiaries acquired	–	–	0.4	0.4
Disposals	–	(0.1)	(3.3)	(3.4)
Exchange adjustments	–	–	(1.6)	(1.6)
At 31 December 1997	0.8	4.9	14.9	20.6
Net book value				
At 31 December 1997	3.1	1.2	9.2	13.5
At 31 December 1996	3.6	1.1	8.6	13.3
Company:				
Cost at 1 January 1997	–	0.1	0.4	0.5
Additions	–	–	0.3	0.3
At 31 December 1997	–	0.1	0.7	0.8
Depreciation at 1 January 1997	–	–	0.2	0.2
Provided for in the year	–	–	0.1	0.1
At 31 December 1997	–	–	0.3	0.3
Net book value				
At 31 December 1997	–	0.1	0.4	0.5
At 31 December 1996	–	0.1	0.2	0.3

The cost of the Group's tangible fixed assets includes £1.3 million (1996: £1.6 million) and the net book value includes £0.6 million (1996: £0.7 million) in respect of assets held under finance leases. The net book value of the Company's tangible fixed assets includes no amount (1996: £nil) in respect of assets held under finance leases.

The Group has capital commitments, contracted for but not provided, of £1.2 million (1996: £0.1 million). The Company has no capital commitments contracted for but not provided (1996: £nil).

Notes forming part of the financial statements (continued)

for the year ended 31 December 1997

12. Fixed asset investments

	Share of associated undertakings' net assets £'m	Other fixed asset investments £'m	Own shares £'m	Total investments £'m
Group:				
Net book value at 1 January 1997	0.7	0.7	0.7	2.1
Disposals	–	(0.4)	(0.1)	(0.5)
Provisions	(0.2)	–	–	(0.2)
Exchange movements	(0.1)	–	–	(0.1)
Net book value at 31 December 1997	0.4	0.3	0.6	1.3
Company:				
Net book value at 1 January 1997	–	397.7	0.4	398.1
Additions	–	4.3	–	4.3
Disposals	–	–	(0.1)	(0.1)
Write back of provision for diminution in value	–	2.2	–	2.2
Net book value at 31 December 1997	–	404.2	0.3	404.5

Associated undertakings

A list of the Group's associated undertakings is disclosed in note 25.

Other fixed asset investments

The Group and Company have UK listed fixed asset investments with a market value at 31 December 1997 of £12,977 (1996: £16,623).

The Company's fixed asset investments principally relate to shares in subsidiary undertakings. A list of the Group's principal subsidiary undertakings is disclosed in note 25. The historical cost of the Company's fixed asset investments is £413.6 million.

Own shares

The nominal value of own shares held at 31 December 1997 was £0.1 million (1996: £0.1 million). Options over these shares have been granted to certain senior employees exercisable at any time ranging up to 4 May 2003 and 24 May 2004 at a price of 28.5p or 29.3p. Under the terms of the trust, all dividends on the shares owned by a trust, the purchase of which was funded by an interest free loan to the trust by Aegis Group plc, are waived. All expenses incurred by the trust are settled directly by Aegis Group plc and are charged in the accounts as incurred.

13. Debtors

	Group 1997 £'m	Group 1996 £'m	Company 1997 £'m	Company 1996 £'m
Trade debtors	515.9	456.3	–	–
Amounts due from Group undertakings	–	–	21.1	30.1
Amounts due from associated undertakings	3.5	3.1	–	–
Other debtors	26.9	28.4	4.8	1.4
Prepayments and accrued income	31.7	25.2	0.2	0.1
	578.0	513.0	26.1	31.6

Notes forming part of the financial statements (continued)
for the year ended 31 December 1997

14. Current asset investments

	Group 1997 £'m	Group 1996 £'m	Company 1997 £'m	Company 1996 £'m
Other investments	0.8	–	–	–

Current asset investments comprise unlisted investments.

15. Creditors: amounts falling due within one year

	Group 1997 £'m	Group 1996 £'m	Company 1997 £'m	Company 1996 £'m
Bank loans and overdrafts	55.2	38.2	79.1	68.3
Less issue costs of debt to be amortised	(0.3)	(0.3)	(0.3)	(0.3)
	54.9	37.9	78.8	68.0
Trade creditors	589.6	518.7	–	–
Finance leases and hire-purchase contracts	0.3	0.3	–	–
Amounts due to Group undertakings	–	–	96.7	100.7
Amounts due to associated undertakings	0.2	–	–	–
Taxation and social security	13.2	16.9	0.1	0.1
Corporation tax	7.7	7.2	–	1.2
Dividends payable	3.5	3.1	3.5	3.1
Other creditors	40.7	40.8	4.2	6.1
Accruals and deferred income	23.6	16.8	2.6	1.0
	733.7	641.7	185.9	180.2

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

	Group 1997 £'m	Group 1996 £'m	Company 1997 £'m	Company 1996 £'m
Bank loans	7.9	17.8	–	–
Less issue costs of debt to be amortised	(0.2)	(0.5)	(0.2)	(0.5)
	7.7	17.3	(0.2)	(0.5)
Finance leases and hire purchase contracts	0.4	0.4	–	–
Other creditors	19.7	10.8	2.5	3.5
	27.8	28.5	2.3	3.0

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. These facilities are secured by fixed and floating charges over the shares of certain subsidiary undertakings. 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. No amount (1996: £5.4 million) is repayable between one and two years. £7.9 million (1996: £12.4 million) is repayable between two and five years. No amount (1996: £nil) is repayable after more than five years. Interest is payable on the term loan and the revolving credit facility at LIBOR plus a maximum of 1.0%.

There is no amount included under Finance Leases and hire purchase contracts or under other creditors (1996: £nil) repayable in instalments more than five years from the date of the balance sheet.

Notes forming part of the financial statements (continued)

for the year ended 31 December 1997

17. Provisions for liabilities and charges

Group and Company:

All provisions relate to surplus UK property. During the period, provisions of £2.1 million were utilised.

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 1997 or 31 December 1996.

18. Share capital

	1997 Equity £'m	1997 Non-equity £'m	1997 Total £'m	1996 Equity £'m	1996 Non-equity £'m	1996 Total £'m
Authorised:						
1,200,000,000 (1996: 1,200,000,000) ordinary shares of 5p each	60.0	–	60.0	60.0	–	60.0
68,181,820 (1996: 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:						
833,304,722 (1996: 830,476,443) ordinary shares of 5p each	41.7	–	41.7	41.5	–	41.5
63,753,338 (1996: 63,781,533) variable rate convertible cumulative redeemable preference shares 2003 of 5p each	–	3.2	3.2	–	3.2	3.2
	41.7	3.2	44.9	41.5	3.2	44.7

Ordinary shares

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

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

Date (1997)	Reason for issue	Number of ordinary shares issued	Consideration
13 January	Exercise of share options	230,374	£67,500
13 January	Conversion of preference shares	3,756	–
3 February	Conversion of preference shares	5,008	–
12 February	Exercise of share options	115,187	£33,750
10 March	Conversion of preference shares	3,912	–
18 April	Exercise of share options	23,037	£6,750
4 June	Conversion of preference shares	467	–
6 June	Exercise of share options	69,112	£20,250
6 June	Exercise of share options	7,500	£2,138
11 June	Exercise of share options	25,000	£7,125
18 June	Exercise of share options	12,500	£3,563
18 June	Conversion of preference shares	469	–
23 June	Exercise of share options	69,112	£20,250
23 June	Exercise of share options	7,500	£2,138

Notes forming part of the financial statements (continued)
for the year ended 31 December 1997

18. Share capital (continued)

Date (1997)	Reason for issue	Number of ordinary shares issued	Consideration
27 June	Conversion of preference shares	626	–
3 July	Conversion of preference shares	665	–
4 August	Conversion of preference shares	313	–
11 August	Conversion of preference shares	2,368	–
4 September	Conversion of preference shares	4,244	–
6 September	Exercise of share options	27,500	£7,838
10 September	Exercise of share options	13,822	£4,050
29 September	Exercise of share options	18,000	£5,130
29 September	Exercise of share options	119,795	£35,100
23 October	Exercise of share options	19,500	£5,558
23 October	Exercise of share options	9,215	£2,718
28 October	Exercise of share options	12,500	£3,563
4 November	Conversion of preference shares	107	–
25 November	Subscription of warrants	2,000,000	£600,000
28 November	Exercise of share options	18,430	£5,400
28 November	Exercise of share options	2,000	£570
18 December	Conversion of preference shares	6,260	–
Total		2,828,279	£833,391

The Company received £0.8 million as consideration on exercise of share options and subscription of warrants.

Under the executive share option scheme there were outstanding at 31 December 1997, options over 57,614,482 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 7 July 2007.

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. In particular, preference shares do not carry any voting rights unless the preference dividend is not paid in accordance with the terms of issue. These preference shares are redeemable on 31 December 2003 at par plus any premium paid on issue (note 19). They are convertible into fully paid ordinary shares of 5p each, at the shareholder's option, at any time from 1 July 1996 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 5% per annum for the year ended 31 December 1997 and 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.

Notes forming part of the financial statements (continued)

for the year ended 31 December 1997

19. 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 1997	33.2	10.7	0.2	22.7	(525.2)	317.9
Retained profit for the financial year	–	–	–	–	–	26.2
Issue of shares by the Company (net of expenses)	0.6	–	–	–	–	–
Goodwill arising in the year written off	–	–	–	–	(40.0)	–
Transfers	–	–	–	(0.8)	565.2	(564.4)
Currency translation differences on foreign currency net investments	–	–	–	–	–	1.3
At 31 December 1997	**33.8**	**10.7**	**0.2**	**21.9**	**–**	**(219.0)**

The cumulative amount of goodwill arising from acquisitions during the year ended 31 December 1997 and prior years, net of goodwill attributable to subsidiary undertakings disposed of prior to 31 December 1997, amounts to £565.2 million (1996: £525.2 million). In accordance with the requirements of Financial Reporting Standard 10, goodwill arising on acquisitions arising up to 31 December 1997 which has been written off immediately to reserves has been transferred to the profit and loss reserve account. From 1 January 1998, goodwill arising on new acquisitions will be capitalised and will be amortised through the profit and loss account over its estimated useful economic life of up to 20 years.

	Share premium account (equity) £m	Share premium account (non-equity) £m	Capital redemption reserve £m	Special reserve £m	Merger reserve £m	Profit and loss account £m
Company						
At 1 January 1997	33.2	10.7	0.2	22.7	13.0	120.3
Retained loss for the year	–	–	–	–	–	(2.1)
Issue of shares by the Company	0.6	–	–	–	–	–
Transfers	–	–	–	(0.8)	–	0.8
At 31 December 1997	**33.8**	**10.7**	**0.2**	**21.9**	**13.0**	**119.0**

Following the issue of shares during the year a further £0.8 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 1997 was £4.5 million (12 months to 31 December 1996: £102.5 million). Included within this result is £8.0 million (1996: £100.8 million) relating to the write-back of certain provisions against investments in subsidiaries and irrecoverable balances with subsidiaries which, under the terms of the court approved share premium reduction scheme, is not available for distribution. Accumulated reserves for the Company include £111.3 million which is not available for distribution.

Notes forming part of the financial statements (continued)
for the year ended 31 December 1997

20. Acquisitions
During the year the Group acquired subsidiaries and minority interests (all acquisition accounted for) as detailed below:

Net assets/(liabilities) acquired:	Book value acquired £m	Accounting policy alignment £m	Other adjustments £m	Fair value of net assets £m
Tangible fixed assets	0.9	(0.1) (a)	(0.1) (d)	0.7
Debtors	27.1	(0.3) (b)	(0.3) (c)	26.5
Cash at bank and in hand	4.4	–	–	4.4
Creditors	(31.7)	–	(1.0) (d)	(32.7)
Minority interest acquired	(0.9)	–	–	(0.9)
	(0.2)	(0.4)	(1.4)	(2.0)
Goodwill written-off to reserves				40.0
				38.0

Satisfied by:	£m
Cash consideration	11.7
Direct costs of acquisition	1.5
Issue of redeemable preference shares by a wholly-owned, US subsidiary holding company	10.6
Deferred consideration (note 21)	14.2
	38.0

Accounting policy adjustments have been made to the book value of net assets acquired as set out below:

(a) Adjustments have been made to the book value of tangible fixed assets of certain of the acquisitions detailed below to bring them into alignment with the Group's accounting policies on depreciation.

(b) Where the Group operates as principal with the media in a market where credit insurance is either not available or not available at commercial rates, appropriate bad debt provisions have been established consistent with the Group's accounting policy for that market.

Other adjustments have been made for pre-acquisition items, not reflected in the acquisition balance sheet, as set out below:

(c) Provision against specific bad debts of £0.3 million have been made against irrecoverable balances in MediaBase Communications Sdn Bhd.

(d) In International Communications Group, provision has been made for committed redundancy costs of £0.2 million and office closure costs of £0.3 million. In respect of the Mediekompetens acquisition, a decision had been taken pre-acquisition to replace the existing software system which resulted in a fair market value adjustment of £0.4 million. Miscellaneous costs totalling £0.2 million have also been recorded in respect of various of the acquired companies to correctly accrue for bonuses and other costs relating to the pre-acquisition period.

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 1997
Carat Sponsorship SA	France	15%	100%
Grap et Gides SA	France	100%	100%
Image Publicité Conseil SARL	France	100%	100%
MW Office GmbH	Germany	51%	51%
MediaBase Communications Sdn Bhd	Malaysia	90%	90%
Mediekompetens Group	Sweden	100%	100%
Media Marketing Assessment	USA	100%	100%
International Communications Group	USA	100%	100%

Notes forming part of the financial statements (continued)
for the year ended 31 December 1997

20. Acquisitions continued
Further details on the aquisitions in the year are set out below:

Carat Sponsorship SA
With effect from 1 July 1997, the Group purchased the outstanding 15% minority interest in Carat Sponsorship in France from Mr Didier Levert for cash of £0.3 million (FFr 3.0 million) and deferred cash consideration payable of up to £0.1 million (FFr 1.2 million) payable in 1998 depending on financial performance.

Grap et Gides SA
With effect from 1 July 1997, the Group acquired a 100% interest in Grap et Gides SA in France. The initial consideration of £0.7 million (FFr 7.0 million) has been paid, with contingent deferred consideration of up to £1.0 million (FFr 10 million) payable in cash in 2000 depending on future financial performance.

Image Publicité Conseil SARL
With effect from 1 July 1997, the Group acquired a 100% interest in Image Publicité Conseil SARL in France. The initial cash consideration of £0.3 million (FFr 2.7 million), with contingent deferred consideration of up to £0.1 million (FFr 1.3 million) payable in cash between 1 July 1998 and 30 September 1998 depending on financial performance to 30 June 1998.

MW Office GmbH
With effect from 1 July 1997, the Group acquired a 51% interest in MW Office GmbH in Munich, for which cash consideration of £1.6 million (DM 4.1 million) was paid. In addition, there is an irrevocable contract to purchase a further 24% for £0.7 million (DM 1.9 million) on 31 December 1998. There is also a put and call option on the remaining 25% exercisable in 2002 and 2003 for a price between £0.7 – 0.8 million (DM 2.0 – 2.5 million) depending on future financial performance. All the amounts are dischargeable in cash.

MediaBase Communications Sdn Bhd
With effect from 1 July 1997, the Group acquired a 90% interest in MediaBase in Malaysia for £0.4 million (RM 2.0 million) in cash.

Mediekompetens Group
With effect from 1 January 1997, the Group acquired a 100% interest in the Mediekompetens Group in Gothenburg, Sweden. The initial cash consideration was £2.8 million (SEK 34.3 million). Further contingent deferred consideration payable in cash of up to £1.8 million (SEK 23.0 million) may also be paid between 1998 and 2000 subject to specified growth criteria.

Media Marketing Assessment
With effect from 1 January 1997, the Group acquired a 100% interest in Media Marketing Assessment. The initial purchase consideration of £4.3 million (US$7.0 million) was paid in cash. Contingent deferred consideration of up to £4.3 million (US$7.0 million) may also be paid in cash between 1998 and 2001 based on specified growth criteria.

International Communications Group
On 12 May 1997, the Group acquired a 100% interest in International Communications Group. The initial consideration was a net £12.4 million (US$20.4 million), of which £1.3 million (US$2.0 million) was settled in cash, £0.6 million (US$1.0 million) was settled by a promissory note and £10.6 million (US$17.4 million) was satisfied by the issue of preference shares in a wholly-owned, US subsidiary holding company of Aegis Group plc. The preference shares are redeemable in cash by the vendors at any time and by Aegis Group plc no earlier than 12 May 2002. In accordance with Financial Reporting Standard 4, the redemption value of these preference shares is included within debt due within one year. There is also contingent deferred consideration payable in cash of up to £4.9 million (US$8.0 million), due between 1998 and 2002, based on specified growth criteria.

Notes forming part of the financial statements (continued)

for the year ended 31 December 1997

21. Contingent liabilities and other commitments

Deferred consideration

Deferred consideration, which has been fully provided for in creditors, may be made to the vendors of certain subsidiary undertakings in the years to 2002. Such payments are either fixed under the terms of the acquisition or are contingent on the future financial performance. The directors estimate that, at the rates of exchange ruling at the balance sheet date, the maximum liability at 31 December 1997 for payments that may be due is as follows:

	1997 £'m	1996 £'m
Within one year	5.6	5.2
Between one and five years	15.9	6.1
	21.5	11.3

All of the contingent deferred payments noted above are dischargeable in cash. The minimum liability is £2.5 million. In addition to the deferred payments disclosed above, the value of the redeemable preference shares issued to the ICG vendors (as detailed in note 20) at 31 December 1997 was £10.6 million.

Put options held by outstanding minority interests

There are put options exercisable between 1997 and 2005 in respect of Carat companies in France, Germany, 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 £6.9 million, payable in a combination of cash and ordinary shares.

Guarantees

Guarantees of £13.9 million (1996: £10.7 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.

Lease commitments

At 31 December 1997, there were the following annual commitments in respect of non-cancellable operating leases for the following years:

	Group		Company
	Land and buildings £'m	Other £'m	Land and buildings £'m
Operating leases that expire:			
Within one year	0.4	0.2	–
Between one and five years	3.6	0.6	0.3
After more than five years	3.8	0.5	1.4
31 December 1997	7.8	1.3	1.7
31 December 1996	7.3	2.3	2.0

Notes forming part of the financial statements (continued)

for the year ended 31 December 1997

22. Related parties

In addition to the disclosures set out in the Directors report and note 20 of these accounts, the Group had the following related party transactions in 1997:

During the year, £233,800 was paid to Mr. S Karlsen, Chief Operating Officer of Carat North America Inc., as a bonus based upon the performance of the Carat Scandinavia Group subsequent to its purchase in 1990.

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 £62,966 in 1997. The balance due at the year end was £36,571 (1996: £23,735). Carat France also provided a loan to Consodata SA of £202,051 (1996: £224,805).

Consodata SA provided administration services to Consodata Europe Limited during the year of £305,702. The balance at the year end was £234,985 (1996: £nil).

Consodata SA incurred costs on behalf of and recharged to Consodata Espana SA during the year of £61,403. The balance at the year end was £3,031 (1996: £nil).

Carat Expert SA provided expertise to Europa Programme SA, an associated undertaking, for a fee of £402,985 in 1997. The balance due at the year end was £155,983 (1996: £130,259).

Carat España purchased media space on behalf of Publisal Carat SA, an associated undertaking, totalling £9,507,448 in 1997. The balance due at the year end was £3,053,548 (1996: £2,972,596).

23. Financial instruments

Analysis of interest rate exposure and currency of borrowings for the Group

The currency and interest rate exposure of the gross borrowings of the Group at 31 December 1997, all of which were at floating interest rates, was:

	1997 £'m	1996 £'m
Sterling	33.6	28.3
French Franc	3.6	7.6
Deutschmark	6.1	12.1
Spanish Peseta	7.6	7.3
US Dollar	12.0	–
Other	0.2	0.7
	63.1	56.0

Fair values of the Group's financial instruments

The fair value of the Group's financial instruments at 31 December 1997 was £62.5 million (1996: £54.8 million). There are no material differences between the book and fair values of other financial assets and liabilities.

Notes forming part of the financial statements (continued)
for the year ended 31 December 1997

23. Financial instruments continued

Currency analysis of net assets/(liabilities)

Currency:	Net assets/(liabilities) by currency of operation before financing £m	Gross borrowings £m	Net investments £m
Sterling	(42.8)	(33.6)	(76.4)
French Franc	(6.5)	(3.6)	(10.1)
Deutschmark	(3.1)	(6.1)	(9.2)
Spanish Peseta	18.3	(7.6)	10.7
US Dollar	(26.1)	(12.0)	(38.1)
Other	17.6	(0.2)	17.4
Matched liabilities	(42.6)	(63.1)	(105.7)

Gross borrowings are matched against the relevant investment and currency revaluation differences are dealt with in the statement of total recognised gains and losses (i.e. reserves) in accordance with SSAP 20. Net assets/(liabilities) represent investments after the write-off of goodwill to reserves.

Hedges of future transactions
At 31 December 1997 and 1996, there were no foreign exchange contracts to hedge against future transaction flows.

Market risk
At 31 December 1997, on the basis of existing borrowings, it is estimated that a rise of 1% in interest rates would affect 1997 profit before tax by £0.2 million.

It is also estimated that a strengthening of Sterling by 1% would reduce 1997 profit before tax by approximately £0.4 million.

24. Post balance sheet events
In February 1998 agreement was reached to acquire Halmarick Media ("Halmarick") an independent media specialist located in Sydney, Australia.

The initial purchase consideration is £1.7 million (A$4.0 million) payable on closing. The balance of the purchase price is subject to an earn out over three years based on challenging growth criteria and the maximum possible consideration is £1.4 million (A$3.2 million). All of the purchase obligations will be settled in cash.

The net assets of the business will be acquired at book value.

Notes forming part of the financial statements (continued)
for the year ended 31 December 1997

25. Principal subsidiary and associated undertakings

Principal subsidiary undertakings:	Office	Country of incorporation and operation	Effective interest in issued ordinary share capital at 31 December 1997
HMS Carat	Vienna	Austria	100%
Carat Crystal	Brussels	Belgium	100%
HMS Carat	Prague	Czech Republic	100%
Carat Danmark	Copenhagen	Denmark	100%
Carat UK	London	England and Wales	100%
BBJ Media Services	London	England and Wales	75%
Carat Business	London	England and Wales	100%
Carat Insight	London	England and Wales	100%
Posterscope	London	England and Wales	100%
Posterscope in the North	Manchester	England and Wales	100%
TMD Carat Advertising	London	England and Wales	100%
TMD Direct	London	England and Wales	100%
TMD Carat (Manchester)	Manchester	England and Wales	100%
TMD Direct (Manchester)	Manchester	England and Wales	100%
YMG Carat	London	England and Wales	100%
Carat Interactive	London	England and Wales	100%
Carat International	London	England and Wales	100%
Carat Limited	London	England and Wales	100%
Consodata Europe Limited	London	England and Wales	100%
Carat Finland	Helsinki	Finland	80%
Carat France	Paris	France	100%
Carat Expansion	Paris	France	100%
Carat 2010	Paris	France	100%
Carat Expert	Paris	France	100%
Carat MCI	Paris	France	100%
Carat Prospective	Paris	France	100%
Carat SPFD	Paris	France	100%
Carat Sponsorship	Paris	France	100%
Saverne Developpement	Paris	France	100%
Granite	Paris	France	100%
Carat Direct	Paris	France	100%
Cyclades	Paris	France	100%
IPC	Paris	France	100%
Grap et Gides	Lille	France	100%
HMS & Carat Media-Service	Wiesbaden	Germany	100%
Carat Visions	Wiesbaden	Germany	100%
Carat Hamburg	Hamburg	Germany	100%
Panmedia	Eschborn	Germany	100%
MW Office	Munich	Germany	51%

Notes forming part of the financial statements (continued)

for the year ended 31 December 1997

25. 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 1997
PAP Fahlberg	Hamburg	Germany	50.1%
Carat Hellas	Athens	Greece	75.5%
HMS Carat	Budapest	Hungary	100%
Carat Italia	Milan, Turin, Florence, Rome	Italy	100%
Carat Expert	Milan	Italy	100%
Eurospace	Milan	Italy	100%
Maxmedia	Milan	Italy	100%
Carat India	Mumbai, Delhi	India	75%
Carat Nederland	Amsterdam	Netherlands	100%
Carat MediaBase Communications	Kuala Lumpar	Malaysia	90%
Carat Inter-Media	Oslo	Norway	100%
Carat Media and Research	Oslo	Norway	100%
Carat Mediakanalen	Oslo	Norway	100%
Carat Consulting	Oslo	Norway	51%
HMS Carat Polska	Warsaw	Poland	100%
Carat Portugal	Lisbon	Portugal	100%
Carat Russ-Media	Moscow	Russia	51%
HMS Carat Slovakia	Bratislava	Slovak Republic	100%
Carat España	Madrid, Barcelona	Spain	100%
Consodata Spain	Barcelona	Spain	80%
Carat Scandinavia	Stockholm	Sweden	100%
Carat Sverige	Stockholm, Gothenburg, Malmo	Sweden	100%
Mediekompetens	Gothenburg	Sweden	100%
Micom Carat	Lausanne	Switzerland	80%
Micom Carat	Zurich	Switzerland	48%
Carat Turkey	Istanbul	Turkey	70%
Carat North America	New York	USA	100%
Carat ICG	Los Angeles, San Francisco, Atlanta, Chicago, Memphis, Portland, Raleigh, Denver and St. Louis	USA	100%
MMA Carat	Wilton	USA	100%
Carat MBS	New York	USA	100%

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. The Group exercises control over Micom Carat in Zurich through its 80% ownership of Micom Carat in Lausanne (which owns 60% of Micom Carat in Zurich).

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.

Notes forming part of the financial statements (continued)

for the year ended 31 December 1997

25. Principal subsidiary and associated undertakings continued

Principal associated undertakings:	Office	Country of incorporation and operation	Effective interest in issued ordinary share capital at 31 December 1997
Consodata SA	Paris	France	44%
Europa Programmes	Paris	France	50%
Aerlig Talt	Oslo	Norway	34%
Publisal Carat SA	Bilbao	Spain	39.8%

All shareholdings are of ordinary shares. The Group owns 48% of the share capital of Consodata SA, of which 4% carries no voting rights or rights to dividends.

On 1 January 1998, Publisal Carat SA in Spain, merged with Norte de Communication to form a new company, Mediasal SA. As a result of this merger, the Group now holds a 23.[illegible]% interest in Mediasal SA.

Notice of meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at 11 a.m. on 28 April 1998 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 8, and special business, when resolutions 9 and 12 will be proposed as ordinary resolutions and resolutions 10 and 11 will be proposed as special resolutions.

Ordinary business

1. To receive the statement of accounts for the financial year ended 31 December 1997 and the reports of the directors and auditors thereon.
2. To declare a final dividend of 0.40p per Ordinary share.
3. To re-elect, as a director of the Company, Crispin Davis who retires by rotation and, being eligible, offers himself for re-election.
4. To re-elect, as a director of the Company, Colin Day 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 retires by rotation and, being eligible, offers himself for re-election.
6. To re-elect, as a director of the Company, Bruno Kemoun who retires by rotation and, being eligible, offers himself for re- election.
7. To elect, as a director of the Company, John Amerman who was appointed since the last Annual General Meeting, and being eligible offers himself for 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 £13,890,000 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.
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 £2,083,000,

    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.

Notice of meeting (continued)

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 41,734,000 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 Limited 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 28 October 1999 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.

12 That
    (a) the Aegis Management Incentive Scheme, a summary of the rules of which is set out in the Appendix to the letter from the Chairman of the Company to shareholders dated 20 March 1998 be and is hereby approved, and that the directors be and they are hereby authorised to do all acts and things necessary to establish and carry it into effect; and
    (b) the directors be and they are hereby authorised to amend the rules of the Aegis Group plc 1995 and the Aegis Group plc 1995 No 2 Executive Share Option Schemes so as to ensure that limits on the number of ordinary shares over which options may from time to time be granted under these schemes do not require account to be taken of options granted, and ordinary shares issued, under the Scheme.

By order of the Board
John Rowland
Company Secretary

11A West Halkin Street
London SW1X 8JL

20 March 1998

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 (Computershare Services PLC) 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 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 a copy of the full text of the new scheme, 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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