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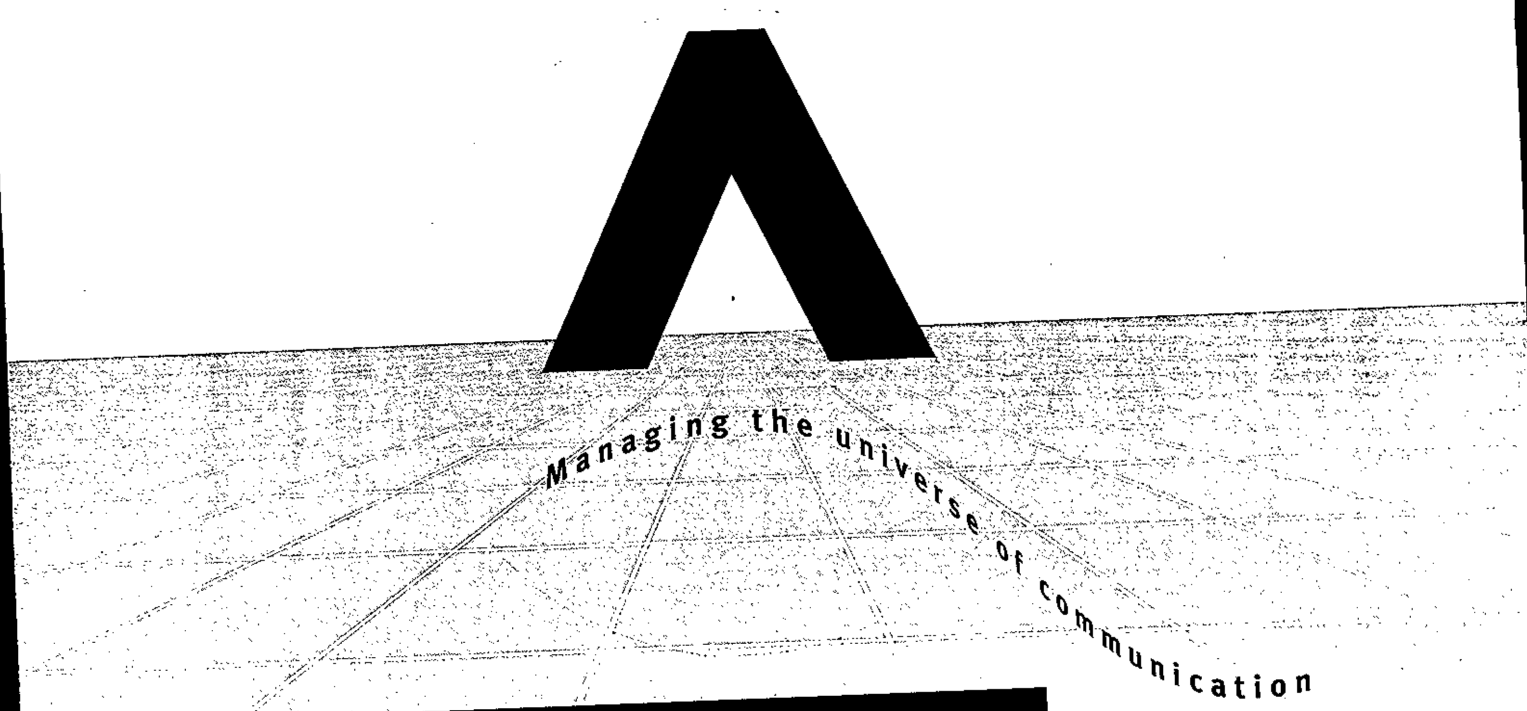
Financial highlights

- Pre-tax profits (before goodwill and exceptionals) increase 17% to £51.1m (up 21% on a constant currency basis).
- Fully diluted earnings per share increases 6% to 3.7p (up 9% on a constant currency basis and up 18% on an underlying basis).
- Turnover grows to £4,130m, up 13% (16% on a constant currency basis).
- Gross margins improve from 5.3% to 5.4%, reflecting the impact of more value-added services.
- Continued strong new business performance, with net wins of US$770m in annualised billings.
- Full year dividend up 21% to 0.85p (1997: 0.7p).
- Further strengthening of the Carat network in North America and Asia; USA is performing particularly well.



	1997	% change actual	% change constant currency
Turnover	£3,652.5m	13%	16%
Gross profit	£191.8m	15%	19%
Profit before tax	£45.6m	11%	14%
Earnings per share (fully diluted)	3.4p *	6%	9%
Full year dividend	0.7p	21%	21%
Net funds/(debt)	£(2.2)m		

Aegis' global position

Australia
Austria
Belgium
Canada
Czech Republic
Denmark
Finland
France
Germany
Greece
Hong Kong
Hungary
India
Italy
Malaysia
Netherlands
Norway
Philippines
Poland
Portugal
Russia
Slovak Republic
Spain
Sweden
Switzerland
Thailand
Turkey
UK
Ukraine
USA

Carat around the globe

1998 Carat market ranking

	Market Share %	Market Ranking
Germany	12.2	1
France	22.0	1
UK	12.3	1
Italy	9.6	2
Spain	12.4	2
Scandinavia	12.5	2
Belgium	13.8	2

Top 10 in USA

Carat global ranking (1997)

Comparison of net billing excluding production
(Source: Advertising Age/Carat)

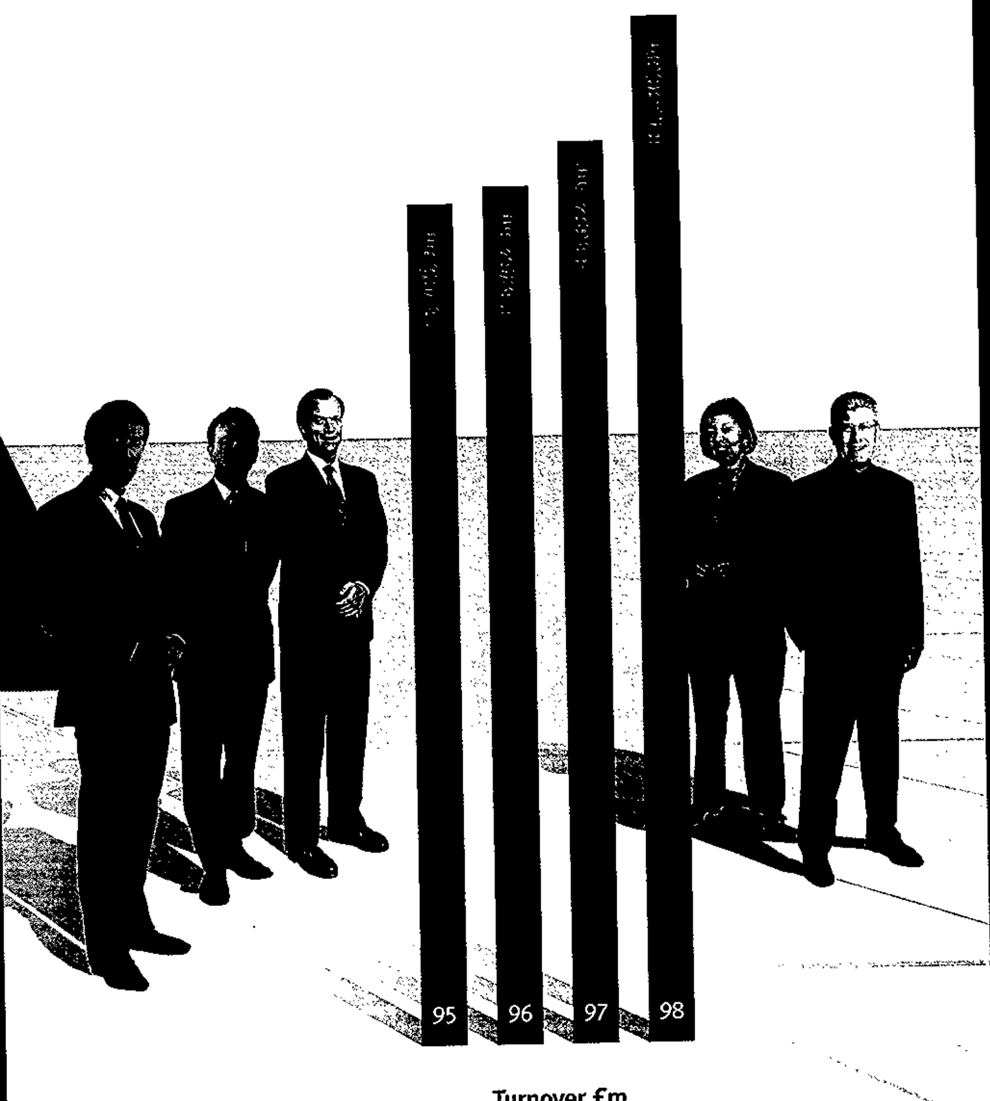
	US$m
1. Dentsu	12,503
2. McCann-Erickson Worldwide	8,217
4. BBDO Worldwide	6,636
5. Y & R	6,541
6. J. Walter Thompson Co.	6,486
7. O & M Worldwide	6,175
8. Hakuhodo	5,943

Carat's multi-national clients

American Express Europe Ltd adidas Cadbury Ltd Chanel Club Med The Coca-Cola Company Danone Group Diageo plc EMI Group plc Ferrero International Henkel The Kellogg Company Kraft Jacobs Suchard Nissan Pernod Ricard Philips Philip Morris Reckitt & Colman Sara Lee SCA SmithKline Beecham Volkswagen Group The Walt Disney Company

Turnover by geography

1. France	24%
2. Germany	20%
3. UK	16%
4. North America	12%
5. Scandinavia	9%
6. Spain	8%
7. Italy	4%
8. Asia Pacific	1%
9. Others	6%



Turnover £m

The results for 1998 demonstrate good growth and continue to outperform the market significantly. Improved turnover, margin and cash flow all contributed strongly and new business gains were at a record high.

Financial results

All of our main businesses have performed strongly in 1998. Turnover of £4,130.0 million showed a 13% improvement on 1997. On a constant currency basis, turnover was up by over 16% and the Group continues to develop well ahead of market growth, estimated at around 5-6% in 1998.

Gross margin has increased again from 5.3% to 5.4% reflecting the Group's continued focus on more added value services. Our operating margin has been maintained at 23% despite the costs of geographical expansion and extending the Group's range of services.

Operating cash flow continues to be strong at 114% of operating profits maintaining the excellent level achieved in 1997. Net funds at 31 December 1998 stood at £36.9 million, helped in part by £17.4 million of cash received from warrant subscriptions and option exercises.

Overall, profit before tax (excluding amortisation of goodwill and exceptional gains) increased by 17% from £43.5 million to £51.1 million. On a constant currency basis, the increase was 21%, with exchange impacting our 1998 profits by £1.4 million. After amortisation of goodwill of £0.5 million in 1998 and the exceptional gain of £2.1 million in 1997, profit before tax rose 11% from £45.6 million to £50.6 million. Tax has been recorded at 28.4% based on profit before amortisation of goodwill.

Frank S Law CBE, Chairman.

Dividends

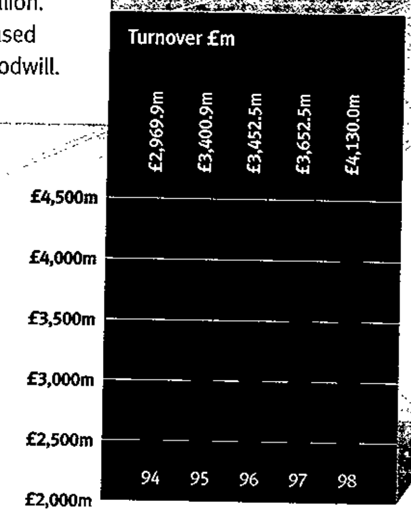
An interim dividend of 0.35 pence per ordinary share was declared and paid in 1998 as a Foreign Income Dividend ("FID"). The Board is recommending a final dividend of 0.5 pence per ordinary share, which makes 0.85 pence per ordinary share for the full year. This represents a 21% increase on the 0.7 pence per share paid in respect of 1997.

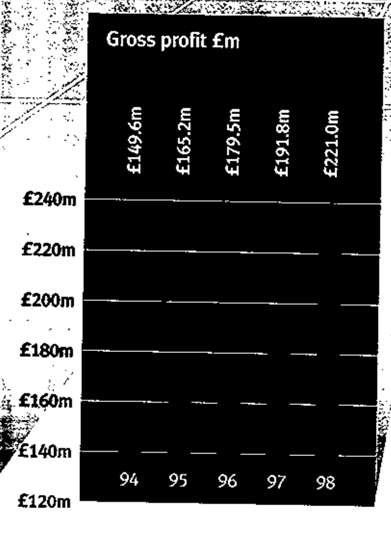
Group developments

All major European countries showed satisfactory performance. Significant progress has been made throughout Europe in extending our range of services within the media communications field, including sponsorship, programming, direct response and proprietary research all of which provide higher margins than traditional media buying. The Group continues to remain clear market leader across Europe and Carat now works with 29 of the top 50 advertisers in Europe and with 16 of these in the top 20.

In the key US market, our operations are performing satisfactorily and are integrating well. During 1998, the Group augmented our US operations with the acquisition of Freeman Associates Inc. In Canada, the Group made two acquisitions in 1998 that make Carat Canada one of the top 10 media agencies in Canada. The Group now has annualised North American billings of around US$1.5 billion, a presence in 13 cities and headcount of nearly 500.

Our Asia Pacific network is starting to take shape. The Group made two acquisitions in Australia and concluded joint venture agreements in Thailand and the Philippines under the Carat brand. Together with our operations in Hong Kong, Malaysia and India, the Group is making significant progress towards establishing our Pan-Asia Pacific network.





Year 2000

The Group's programme to ensure that its businesses are unaffected by the "millennium bug" continues to plan and the Board is confident that the Group has taken all reasonable steps to ensure that its own systems will be fully Year 2000 compliant. The Group anticipates total costs of £1.0 million and £0.5 million has been incurred in 1998.

Corporate developments

In April last year, Warburg, Pincus, Electra Fleming and the Gross family successfully placed 348 million shares, representing 38% of the Group's ordinary share capital, with a broad range of leading European and US institutions. This has significantly improved the liquidity and spread of the Group's shareholding base.

Following the placement of Warburg, Pincus's shareholding, John Vogelstein and Dominic Shorthouse felt it was appropriate to resign as non-Executive Directors. I would like to extend my own thanks and appreciation to them for their tremendous support to the Group over the last decade.

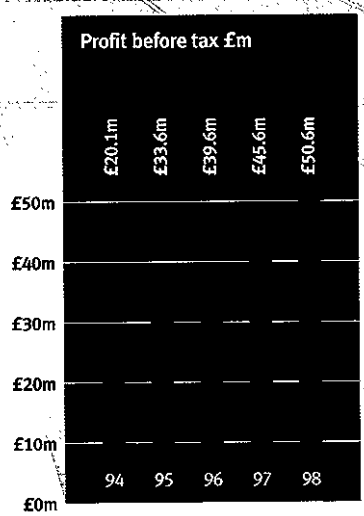
On 15 May, the Board was delighted to announce that Douglas Flynn, UK managing director of News International plc, was appointed as an additional non-Executive Director.

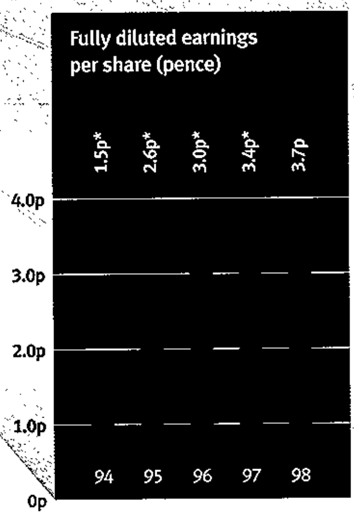
1999 outlook

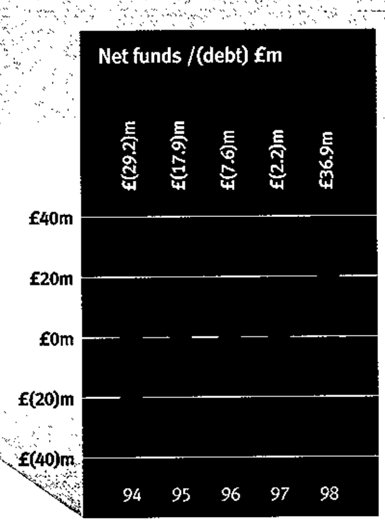
The Group has started 1999 with some important new business wins that should provide good momentum for the business this year. The full year should represent another year of continued satisfactory progress. I remain confident that the Group can take advantage of the long-term opportunities for growth, both in terms of developing its products and services and on a geographical basis.

I would like to take this opportunity to thank all the staff for their hard work and dedication in achieving these results. The loyalty and enthusiasm of the staff that I find during my travels throughout the Group is a joy to acknowledge.

Frank S Law CBE, Chairman.







*As restated under Financial Reporting Standard 14

Chief Executive's review

1998 was another year of strong growth for the Group, with good financial performance at all levels. This growth was broadly spread: turnover, margin and cash flow all contributed, as did all major markets.

At the same time we have made further progress against our long-term strategic goals of upgrading and extending our range of services, building a global network, and developing a quality international client base.

Market environment

Although there has been some volatility in individual markets, overall the global advertising market remains quite healthy. Looking at long-term historical growth trends, this is a more robust market than is sometimes credited. In 1998 growth in advertising expenditure was in the range of 5-6% and we anticipate a broadly similar level – perhaps slightly less – at 4-5% in 1999. The key US market remains strong. This is a reasonable environment for the Group to target further good growth rates.

Demand for media services continues to grow. As we have explained before, 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 media specialist. As the largest independent media specialist, Aegis is well placed to take advantage of these changes.

Crispin Davis, Chief Executive.

Looking forward, it is likely that certain service areas will become increasingly important for the Group to fully meet client needs and maintain a superior service: proprietary customised research, data provision and management, and interactive communication driven by internet and digital technology. All three areas are receiving high priority, as discussed later.

Business development

In 1998, the Group continued to outperform the market significantly, with consequent strong growth in market share. Total turnover rose by 13% (16% constant currency). In Europe, turnover grew by 8% (11% constant currency) with all major countries outperforming the market. In the USA, turnover growth was an exceptional 51%, partly due to recent acquisitions. Asia Pacific turnover also grew strongly from a low base.

The Group produced another encouraging new business performance reflecting the quality of its services, organisational strength and its international network. In 1998, we achieved net gains worth US$770 million on an annualised billings basis, a 10% rise over the corresponding, strong period last year. The net new business gains were split between Europe with US$432 million, North America with US$280 million and Asia Pacific with US$58 million.

Encouragingly, 1998 saw a number of significant network wins including SCA Mölnlycke and adidas in Europe and Club Med globally. All major countries did well: new accounts include Danone and Kellogg in Germany, La Poste in France, Telefonica in Spain, Infostrada in Italy, Cable & Wireless and Diageo in the UK. In the USA, important wins included CBS, Nabisco, Sears and Primestar. In Asia, we won Mandarin Hotels, Lion Nathan and Alfa Romeo. The one significant client loss was Volkswagen Audi in Germany.

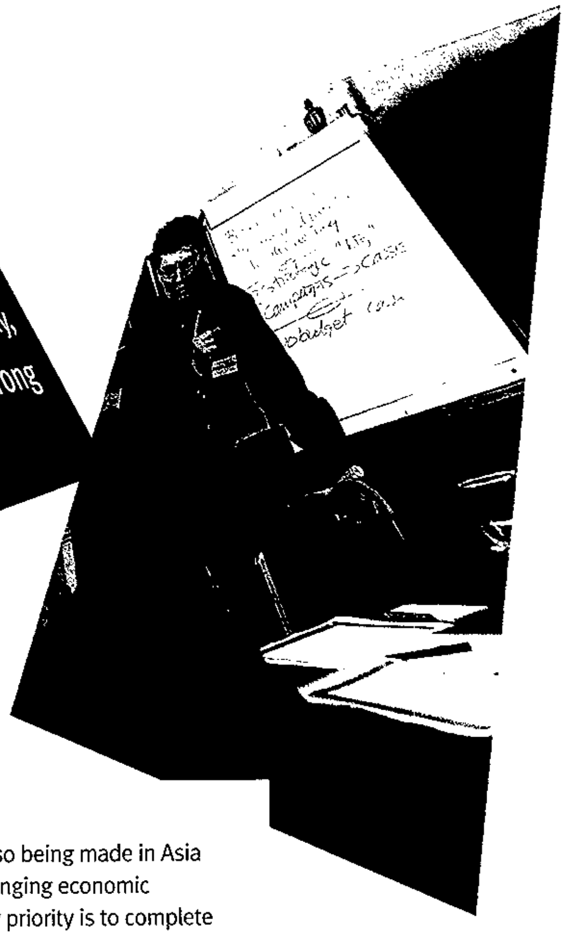
European markets

All major European countries showed satisfactory performance, with France, Spain, Italy, UK and Germany all performing particularly well. Scandinavia also had a better year, with strong results in Sweden.

We continue to remain clear market leader across Europe and our market share has strengthened further above 12%. Turnover grew 8%, about double the rate of market growth. Carat now works with 29 of the top 50 advertisers in Europe.

On 1 January 1999, the Euro was introduced in 11 countries within the European Union and we can confirm that all our operations in those territories are now able to handle transactions in both their local currency and in the Euro.

"In 1998, the Group continued to outperform the market significantly, with consequent strong share growth."



North America

Performance in the USA has been particularly encouraging in 1998, with results well ahead of objective. We today have annualised North American billings of over US$1.5 billion. In 1998, turnover grew 51% versus the previous year. New business performance has been particularly strong with net 1998 wins of US$280 million. The USA was by some margin the largest single contributor to Group new business. Momentum has been maintained in early 1999 with net wins of over US$350 million in January and February, including Pfizer, Midas and Alberto Culver.

Significant effort is going towards upgrading our service capability and research as well as adapting Group proprietary tools to ensure that our product is fully competitive.

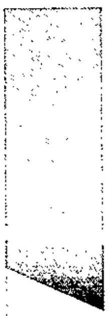
The three acquisitions made in 1996 and 1997, ICG, MBS and MMA, are all performing satisfactorily and are integrating well. In 1999, we will be merging our media buying operations in Carat ICG and Carat MBS into one unit called Carat USA. This will help to streamline our operations and improve our service offering. During 1998, we have also acquired Freeman Associates Inc. Freeman, based near Boston, is a leading agency in the business-to-business and internet advertising sector or high-tech information marketers. We anticipate strong growth here for the future.

In Canada, we acquired the Stratêgem Group, based in Montreal, and David Cairns and Company Media Management Limited in Toronto. Both are highly regarded operations and position Carat as one of the top 10 media agencies in Canada.

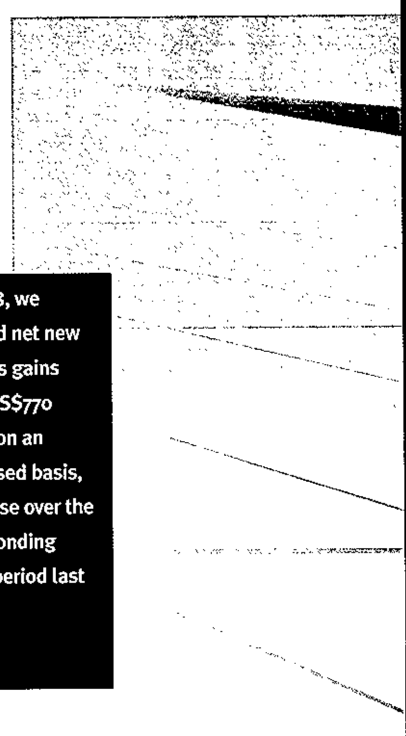
We anticipate further bolt on acquisitions in the future as we expand our range of media services in the USA. Overall, we continue to view North America as offering strong growth potential for the Group.

Asia Pacific

Steady progress is also being made in Asia despite a more challenging economic environment. The key priority is to complete the Carat network across the region. This year we concluded the acquisitions of two agencies, Bray and Halmarick, giving Carat significant presence in Australia. We also established operations with strong local partners in Thailand and Philippines under the Carat name. Together with our operations in Hong Kong, Malaysia and India, we are making encouraging progress towards establishing our Pan-Asia Pacific network. This progress should continue in 1999.



As with the USA we are also putting high priority against upgrading service levels in the region, and are introducing Group tools and strengthening the organisation. As the region develops an increasing need for more sophisticated media services, these investments should stand us in good stead. Over a three to five year period we continue to believe the region offers attractive growth and financial opportunities.



"In 1998, we achieved net new business gains worth US$770 million on an annualised basis, a 10% rise over the corresponding strong period last year."

Chief Executive's review

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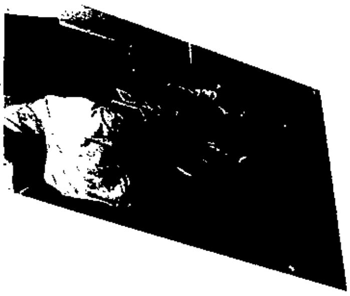


"The Group's strategic goal remains to develop and extend our range of services so that we cover the universe of communication for our clients."

Product and service development

Our long-term growth depends fundamentally on the quality of the Carat product and service. With competition increasingly active, it is essential that we put high priority and investment towards ensuring the Group maintains its superiority here.

In 1998 an important initiative was undertaken to upgrade the Carat product in the core planning and buying arena, and achieve greater service consistency across the 40 or so markets where the Group operates. Carat Sphere represents the outcome of a year's work by an extensive team across the network to develop a new comprehensive process to maximise the effectiveness of clients' media communication programmes. This is supported by the launch of new proprietary tools, which utilise Carat's enormous database and sophisticated software. Carat's operations in all regions are currently engaged in major implementation and training programmes to make Carat Sphere an operational reality. The investment, both in development and training, has been considerable and I am convinced this will pay major dividends in future years.

We are also focusing on extending our range of services beyond the traditional buying/planning core. Significant progress continues to be made across most markets, particularly against sponsorship, programming, direct response, proprietary research, interactive and media evaluation – all of which provide higher margins than the core media planning/buying product. We are also now putting increased focus on interactive communication, which is being driven by internet and digital technology. This will over time revolutionise how many businesses communicate, and conduct business, with their consumers and clearly offers important opportunities for Aegis. The acquisition of Freeman Associates in the USA is an initial step down this path, but further investment is likely in future to strengthen our capability here.

The Group's strategic goal remains to develop and extend our range of services so that we cover the universe of communication for our clients.

Network development

As our international clients move to global branding, global strategies and integrated communication programmes, the future strength of the Group will similarly rely heavily on its ability to operate as a cohesive, integrated, international network. It is encouraging to report real progress against that goal in 1998. We are increasingly using resources around the network to initiate, develop and test product upgrades, tools and new services before expanding these globally. Transfer of best practice is becoming more and more common. The development of the Carat Sphere product and process – involving contributions from over 20 countries – will result in the Group operating to much more consistent standards and services. We have introduced a leading edge intranet communication capability linking every office in the network and providing access to an extensive central database. All operations are now supported by common incentive, assessment, objective setting and training schemes.

Later in this report we describe in more detail – and try to give insightful examples – not only on how the Group is upgrading its services, but also how we are increasingly operating as a global team – and the power that comes from that.

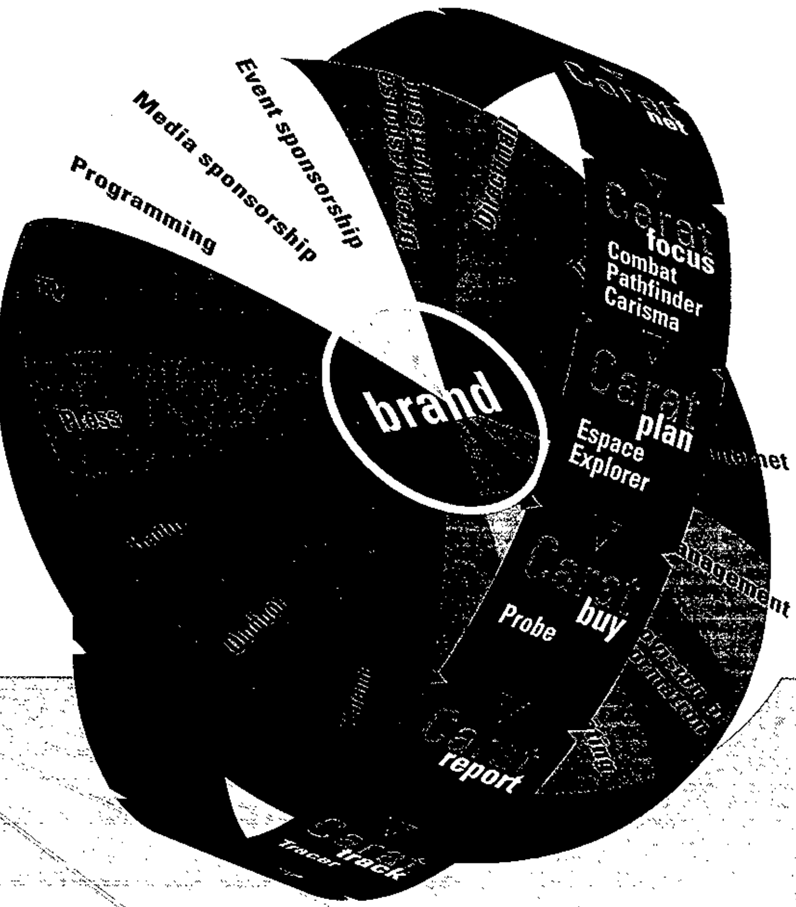
Future outlook

1999 has started well and initial new business has been particularly strong. The full year should represent another year of continued satisfactory progress. We remain confident that the Group can take advantage of the long-term opportunities for growth, both in terms of developing its products and services and on a geographical basis.

We continue to have great confidence in the Group's future.

Crispin Davis, Chief Executive.

"Within the Carat Sphere service our use of bespoke tools has proved highly effective. We are continually building on past learning to ensure optimum results."

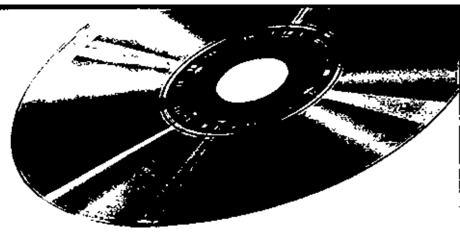


Carat Sphere is the way we work to maximise the effectiveness of our clients' communication programmes.

We deliver insights for our clients through innovation and effective focus in understanding consumers.

Across 360° media communication from traditional media through to sponsorship and one-to-one communication vehicles such as direct response and the Internet we add value using sophisticated analysis tools.

In an increasingly challenging market place Carat Sphere enables us to operate in a high quality and consistent way, a true working network.



"With Carat we know that we are not just buying the expertise of a few key individuals but a whole international network of knowledge and expertise."
Ton Kenmere, Philips Global Brand Management.

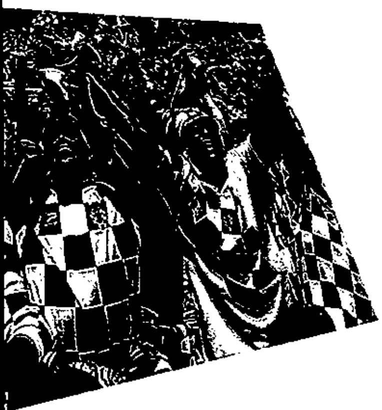
A working network

Making regional and global partnerships work

Eric Drancourt

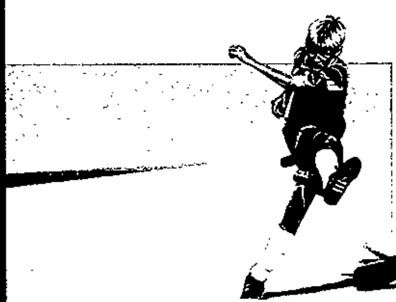
Clothes, music, films, sport, brands, advertisers are becoming truly global. For Carat this is leading to regional, even global, partnerships with clients, whereas, in the past, even major multinational advertisers appointed local advertising service suppliers.

Managing the clients' communication programmes across geographies requires new and harmonised services.



In 1997 we laid the foundation by investing in both the hardware and software necessary to collect data from our offices electronically . Rather than spending time collating data and status of campaigns manually we can produce tailormade international reports for clients literally at the push of a button giving access to up to date information, improving decisions.

Our international client servicing structure, Carat International, is building tools and databases to help clients allocate budgets, with plans which take advantage of local tactical media conditions within an overall global or regional plan.



For Carat this is paying dividends being cited directly as a key reason for 1998 international new business wins, Club Med, adidas and SCA.

A network for developing markets – Eastern Europe

Hans Germeraad

The CEE region is now the fastest growing advertising "market" in Europe with unprecedented investment witnessed over the last 3-5 years, largely fuelled by an aggressive European expansion policy of some of the world's leading companies. The markets are still building momentum and the escalation in available media parallels the expansion of advertising networks as clients envelop the CEE region into their European marketing boundaries.

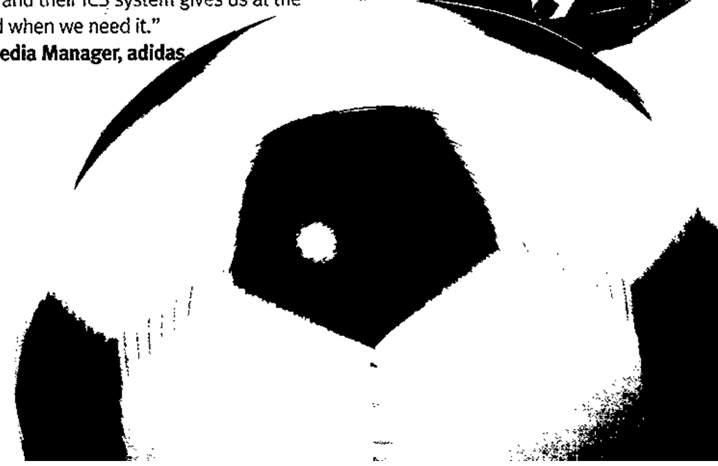
"We intend to continue launching new broadcast operations across the huge expanse of Central and Eastern Europe and we plan to move into new areas of media."
CEO, CME Network.

Clients expect agency networks to help achieve economies of scale in their servicing contracts, provide one-stop co-ordination centres and guarantee a consistent 'quality product' and the highest standards in accountability.

Our progress in building a strong network of dedicated offices means we offer potential clients a full spectrum of services, harmonising local data and information within, for them, an increasingly unified Europe. We're committed to investment in training Carat's best practice, to integrating our leading-edge tools.

Media convention is openly challenged in new and developing markets, paving the way for Carat to exploit new ideas and offer creative media solutions to clients' marketing problems.

"At adidas we were impressed at the pitch by Carat's ability to work as a real multinational team on our brief. We expect consistently high standards from our key suppliers in every market and fast access to information. Carat's network delivers locally day in, day out – and their ICS system gives us at the centre the data we need when we need it."
Jason Dawes, Global Media Manager, adidas



"In Carat, I value their openness, their understanding of our needs and their 'can do' attitude. To date, I have never heard from their side that 'THIS CANNOT BE DONE' even when I present them with very ambitious targets. I also value the chance to collaborate on development of new tools which no doubt contribute to the quality and effectiveness of media planning."
Marek Struszczyk, Aronia.

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The benefits of international training

Howard Wang

The expansion of the group in Asia Pacific has provided a very clear demonstration of the benefits of international training.

The Asian management team is now well on the way to completing Carat Sphere training successfully in all currently operational markets. The process began with a regional train-the-trainers workshop held in Kuala Lumpur, Malaysia in early November 1998. Country training programmes kicked off with Malaysia, followed by Australia, Thailand, India and the rest of the region. Aegis Group and Carat Asia Pacific executives were on hand to assist each country's training.

This has enabled us to share a common culture, a common way of working, standardise terminology, adopt best practice, pilot tools and quickly begin to operate efficiently within the network. Detailed training on the tools is in progress and Asian adaptations are being specified by a dedicated team.

In most markets, this has allowed Carat companies to "leap-frog" competitors and provide a demonstrably superior product and service to clients.

Richard Halmarick, CEO of Carat Australia, has no doubt about the benefits Carat Sphere training has brought, "We have successfully adopted Carat Sphere in new business presentations to Lion Nathan, Fisherman's Friend, and Air Vanuatu. In each case, we were able to demonstrate comprehensively to the client the depth of our understanding of their target consumers, the marketplace they compete in, and how best to achieve their marketing objectives" he says.

Carat Crystal Belgium have a web link with their clients.

"Via a web link, we can give our clients secure, direct access to management reports on the status of their campaigns, media plans and schedules. The addition of a personalised 'digipass' and e-mail connection ensures an effective private connection.
Our web link will improve the efficiency of our service to clients with fast response and a simple user interface accessing information at any time and from anywhere."

The value of our knowledge – Carat Net

Jean Wong

At Carat, knowledge is the chief ingredient of what we buy and sell, the raw material with which we work. With a worldwide network of around 2,800 media professionals, the collective skills of the Carat network are a key benefit for our local and international clients.

Via knowledge bases and electronic discussion groups, our intranet, Carat Net, is now providing global access and exchange on best practice, rigorously updated by selected leaders of different areas of our service. This process ensures our best of the best is shared and applied to deliver a high quality and consistent service internationally.

An indispensable tool supporting face-to-face meetings, Carat Net helps to manage product development and captures the know how of the international research team.

Client Service Directors around the world share experience, exchange ideas, discuss topical media issues, the competitive landscape, to deliver business advantage for our clients; or quite simply to get help.

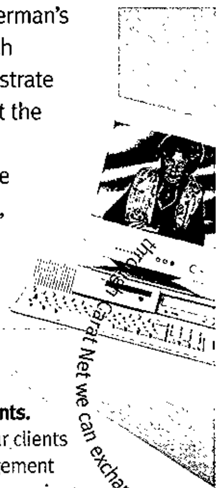
What our clients want above all else are insightful ideas, the ones that break through to deliver sales. Our bank of successful innovation provides the canvas and the learning environment to spark off individual imagination to give unique solutions. This was clearly evidenced by a recent "virtual global brainstorm" on great media ideas for a particularly successful new business pitch.

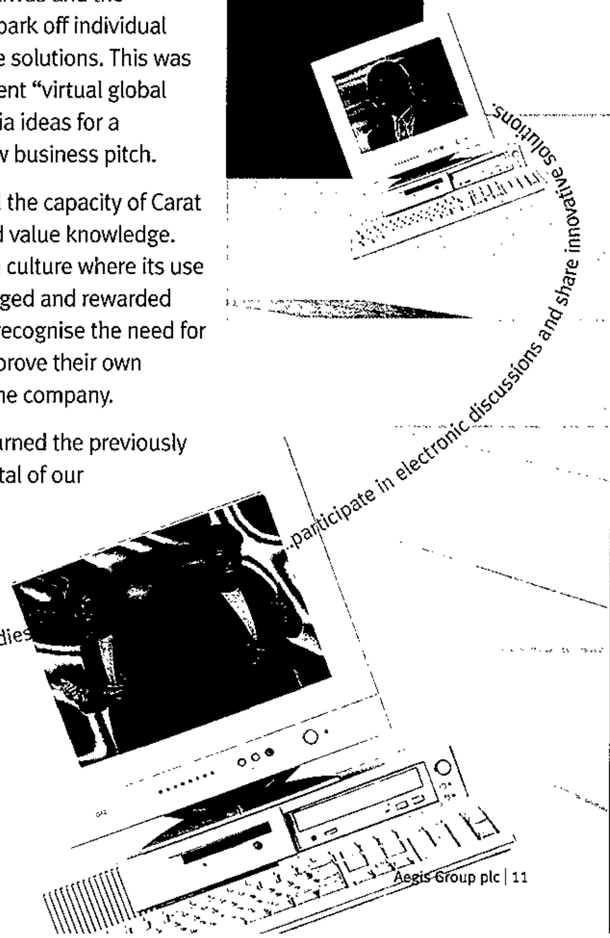
Carat Net has transformed the capacity of Carat to create, share, apply and value knowledge. We are actively fostering a culture where its use is encouraged, acknowledged and rewarded and where all employees recognise the need for continuous learning to improve their own performance and that of the company.

With Carat Net, we have turned the previously untapped knowledge capital of our organisation into a major competitive asset.

IT infrastructure

"Upgrading our global communication system and optimising our IT network architecture was a strategically important project in 1998, to lay a solid foundation for supporting our key business processes and ensure faster, more efficient communication within a network of 71 offices in 30 countries."
Keith Beckford, Carat Group IT Manager.





through Carat Net we can exchange big ideas, tool developments, case studies

...participate in electronic discussions and share innovative solutions.

using tools

Insights into media world-wide

Claudio Conti

The continued introduction and implementation of proprietary software on a global basis is providing unique insights into the way people consume media, both within countries, and across international borders.

Malaysian mothers and children may be loyal and concentrate on Disney Hour each week whilst US kids zap and surf across channels. The genre and performance of features in the USA can forecast their ratings as they roll across different cultures.

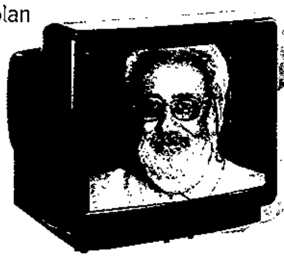
These Carat tools offer valuable help to both centralised international advertisers who are, by definition, less familiar with the rapid changes currently being experienced within local media markets, and local clients who require the most efficient use of their budgets.

For instance, Fortuna is designed to give Carat planners, buyers and clients an overview, as well as a detailed understanding, of target consumers' TV viewing habits. The dynamic visualisation tool captures the key quantitative attributes that we believe combine to provide a qualitative (yet measurable) 'feel' for the TV environment. Factors evaluated within Fortuna include viewing loyalty and affinity for programmes. We have validated through research how this affects the effectiveness of spots in programme breaks. It shows us overlap between programme audiences, audience flow between channels over a viewing period and zapping levels; we combine these with forecast costs, programme schedules and audience trends and apply them on a tailored client-by-client basis.

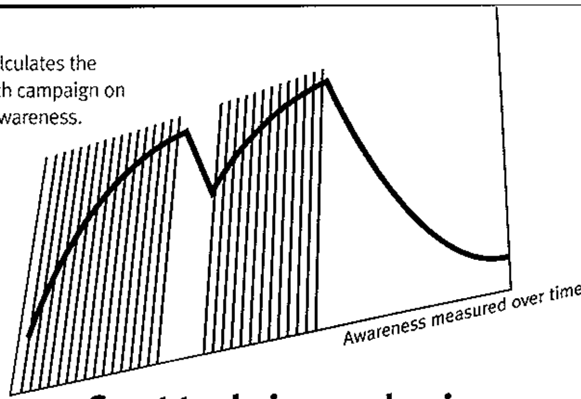
Experience over the last eight years of building Fortuna into planning systems in Europe has helped us extend the understanding to Asia and the USA.

Such Group development projects are focused on a depth of analysis that is not readily accessible via an industry standard approach; they give us the ability to plan and buy smarter, to get real value for clients.

Fortuna helps us understand consumers' TV viewing habits.



Scheduler calculates the impact of each campaign on advertising awareness.



Carat tools in new business in North America

David Verklin

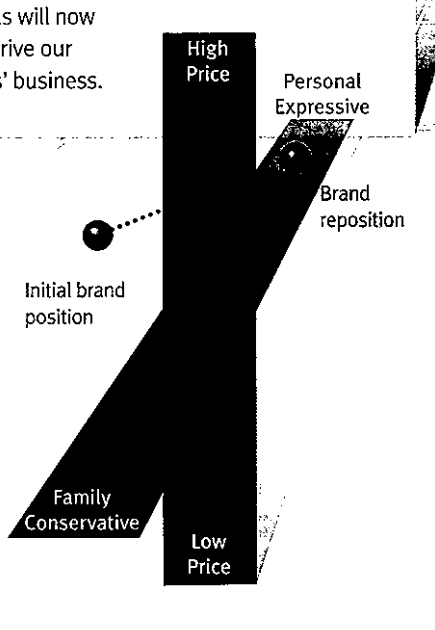
Carat's tools have proven to add incredible leverage to our business development efforts in North America.

Traditionally, independent media services in North America have grown business based on the promise of lower rates through tough negotiations and market clout.

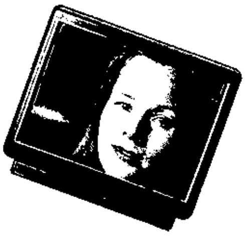
By adding the sophistication of Carat tools to our 360° media offering in North America we have created a differentiated and unique story that is grabbing the attention of sophisticated advertisers and potential US clients.

The use of Carisma, for example, was certainly key to expanding our relationship with Alberto-Culver, Carat Tracer and Carat Scheduler were integral elements in the Pfizer win. Essentially every new business presentation and win for Carat North America in 1998 had an extensive Carat tool element. It's important to note, however, that the Carat tools are more than just shiny toys to present in a new business environment. They increase efficiency, sophistication, and eventually creativity throughout our organisation and tie us together as a company.

Clients can sense the "reality" and differentiation of these products, and have demonstrated their faith by awarding us their business. 1998 was, by any measure, a tremendous year for our new business growth in North America – the Carat suite of tools will now help drive our clients' business.



Adding value



Adding value in Carat Nederland
Dorien Sterrenburg

8x4 Unity, a deodorant brand, was one of our winning brand relaunches in 1998 for our client, Beiersdorf. Against stiff competition, and with a budget that was insufficient for a traditional product launch, the need for innovative media ideas that could communicate the brand values more effectively to new, younger consumers was key.

The highly attractive fragrance became the focus of our media strategy. Specific distinctive ideas ranged from posters, product placement in cloakrooms, "scratch 'n sniff advertisements" in magazines, to silver bodypainted dancers and promotion teams. Schools, clubs and bars were our chosen targets to ensure we reached younger consumers, primarily non-users previously.

We met the targeted impact after two months. This effectiveness will form the basis for new fragrances now coming on stream.

Effective buying at Carat Hellas
Anna Hatzissava

In 1998 Carat Hellas went on developing its strategy oriented towards optimising the return of client investment in brand communication. It resulted in quantitative and qualitative added value for our clients.

Two major Carat Hellas clients, United Distillers & Vintners and Beiersdorf Hellas, showed how Carat can increase the value of advertisers' media investment. In 1998, within the highly competitive spirits market, Carat Hellas achieved for UDV a TV cost 14% lower than the average of the rest of the spirits category.

Carat Hellas also considerably increased the return of Beiersdorf Hellas media investment. Thus the difference in the cost of TV air time buying between Beiersdorf Hellas and its main competitor (8 times larger) decreased by 60% between 1997 and 1998.

"Carat Hellas acts as a real partner and is committed to promoting our brands in all aspects, even not purely media related. We feel Carat has become a member of the Philips Hellas family and their people serve our interests in the best possible way."
Costas Vamvacopoulos, Chairman and Managing Director, Philips Hellas S.A.

"For us, Carat represents not just competitive media deals, but – equally importantly – real added value. They certainly have their share in the development and positive results of Beiersdorf Hellas."
John Papoutsis, Director Consumer Business, Beiersdorf Hellas S.A.

Successful international planning with MMA

Sunil Garga

What drives sales

Media Marketing Assessment has conducted marketing mix analyses in over 20 countries around the world. These analyses allow marketers to quantify how much short-term incremental volume their advertising and promotional activities create. Such analyses provide the basis for resource allocation, budget and media planning and strategic insights into growing brands. The recommendations have proved powerful for major global advertisers because MMA modelling is based on empirical data linking marketing and external activities to a bottom-line measure – sales.

MMA conducted an analysis of a major fmcg brand in Europe in 1996 and recommended three key changes in marketing and media strategy:

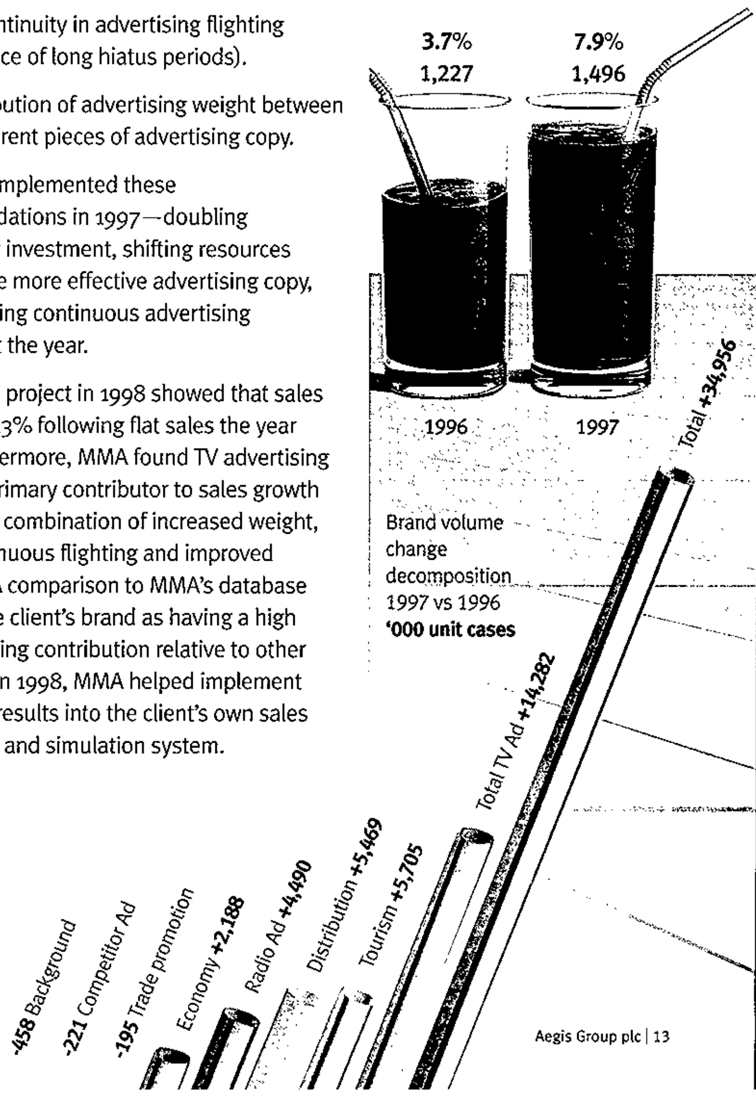
1. Increase advertising support.
2. More continuity in advertising flighting (avoidance of long hiatus periods).
3. Redistribution of advertising weight between two different pieces of advertising copy.

Our client implemented these recommendations in 1997—doubling advertising investment, shifting resources towards the more effective advertising copy, and executing continuous advertising throughout the year.

A follow up project in 1998 showed that sales increased 13% following flat sales the year prior. Furthermore, MMA found TV advertising to be the primary contributor to sales growth driven by a combination of increased weight, more continuous flighting and improved copy mix. A comparison to MMA's database showed the client's brand as having a high TV advertising contribution relative to other countries. In 1998, MMA helped implement the model results into the client's own sales forecasting and simulation system.

Total brand TV advertising performance

% Contribution (total brand volume)
Effectiveness (incr. volume/GRP)



Carat Italia embraces the 360° media mix

Walter Hartsarich

Carat Italia have always delivered upstream consulting and innovative use of media for our clients. However 1998/99 has added real strength to our armoury as we have introduced Carat Sphere. The whole network is fully committed to this new and unique way of working, not only the management but everybody working in each company of the Group.

It is a strength you can feel across the network which is shown through the results achieved in the new business area.

Wins of new clients such as adidas, SCA, Club Med are just an example of how the network works in delivering added value which clients appreciate.

Also at a domestic level the result is the evidence of "a new deal". Carat Italia has, this year, an outstanding record of new business.

Our clients appreciated our way of working in, for instance, the launch of the new Volkswagen Golf in Italy, exploiting all the opportunities given by managing a 360° media communication programme, a mix of classic media with other new media such as programming, events, internet, PR.

A similar tailormade approach for the launch of the new car Seat Arosa resulted in doubling of sales, and Seat on the whole increased by 70%.

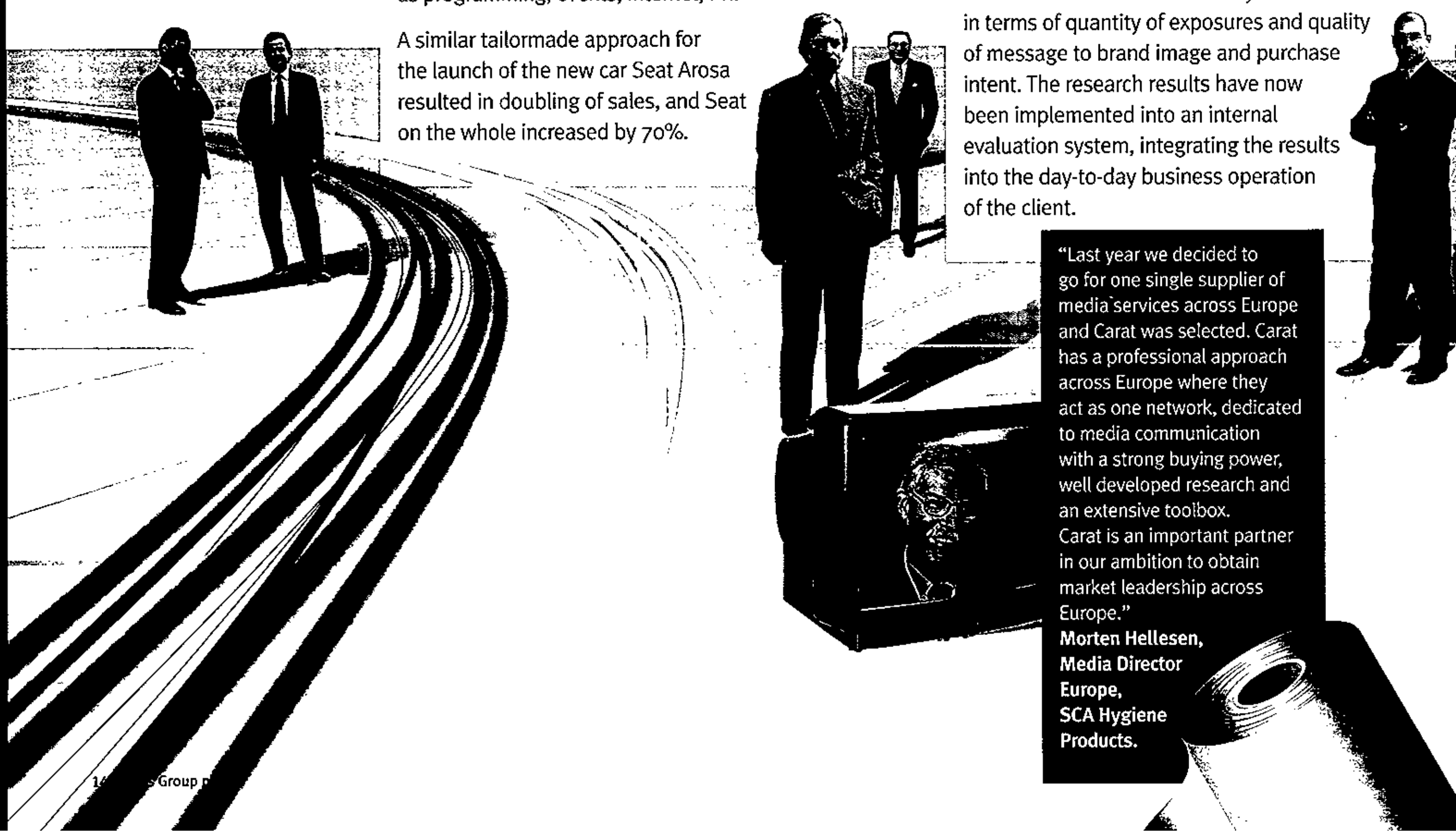
Carat Wiesbaden manages the universe of media

Alexander Ruzicka

Consumers package the whole range of messages they receive from a brand into one set of perceptions and benefits.

One of our largest clients in Germany has brands, which are quite literally, everywhere. It is invaluable for our client to know the additional contribution from each medium, whether it is lorries, trucks, public vending machines, neon signs, sponsorship or traditional media.

In 1998, we conducted an in-depth research study, which gave us a comparable measure of exposure for each different media vehicle. It broke new ground. We identified the additional contribution made by each vehicle in terms of quantity of exposures and quality of message to brand image and purchase intent. The research results have now been implemented into an internal evaluation system, integrating the results into the day-to-day business operation of the client.



"Last year we decided to go for one single supplier of media services across Europe and Carat was selected. Carat has a professional approach across Europe where they act as one network, dedicated to media communication with a strong buying power, well developed research and an extensive toolbox.
Carat is an important partner in our ambition to obtain market leadership across Europe."
Morten Hellesen, Media Director Europe, SCA Hygiene Products.

360° media planning 360° media planning 360° me...

Digital success story for Carat Spain

Jordi Calvet

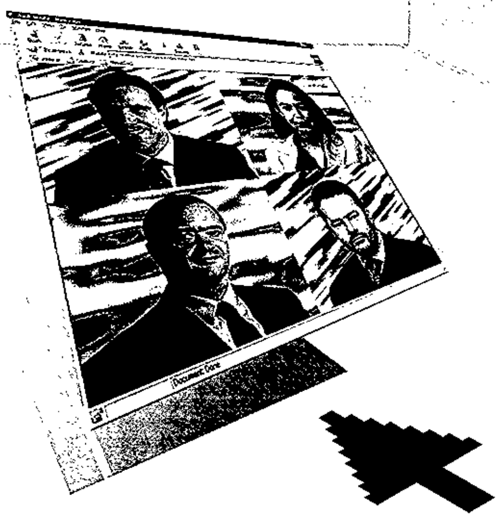
In January 1997, Carat España was Spain's first media agency to create an exclusive department dedicated to the provision of consultancy and planning services for digital media to their clients. In a market which at that time was in its initial stages, this initiative soon became an added value factor.

When Seat España decided to develop an interactive line of communication with their customers, Carat New Media was commissioned to manage the project. We recommended developing various web sites, each aimed at specific targets. From the beginning of the project it was decided to take advantage of all the qualities of this new media (interactive, personal, involving loyalty). Having taken into consideration the profile of the Spanish Internet user, the Seat Ibiza was the first model launched on the net.

The results were astounding. From April 1998 to January 1999, the number of web site visitors amounted to more than 68,000 (more than 850,000 pages viewed), thus converting the Seat Ibiza web site into the industry's reference point, commercially speaking.

During 1998 the Seat Ibiza won the two most important interactive prizes on the Spanish market. Carat España have consolidated this by winning the best foreign web site (the first Spanish site to receive this prize) for the Audi TT mini site awarded by the American magazine, Communication Arts.

Integrating effective web communication with traditional media programmes helps our clients deliver targeted communication to profitable prospects.

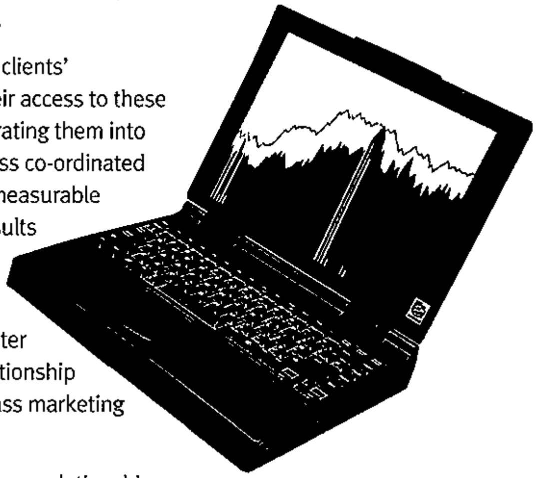


planning 360° media planning 360° med

One-to-one media solutions in Carat France

Eryck Rebbouh and Bruno Kemoun

In 1998, Carat France continued to develop services oriented towards new activities in total synergy with its core business of media consulting and media buying, along with its subsidiaries Carat Media Marketing, Carat Direct, Carat Multimedia, Carat Sponsorship, and more recently Carat Event.



Carat France is able to fulfil its clients' expectations by facilitating their access to these new services, while also integrating them into a global communication process co-ordinated by a central vision, providing measurable productivity and efficiency: results focused marketing.

In 1998 a major client took up the challenge of how to better establish and exploit their relationship with their consumers: from mass marketing to one-to-one.

We aimed at developing customer relationships with new sources of business and finding new customers while optimising the added investment for even greater productivity and efficiency.

The traditional consulting and media buying team co-ordinated their efforts with Carat Direct and Carat Multimedia to plan, manage and track the 360° media campaign, including direct response and multimedia consulting (web site creation and tracking).

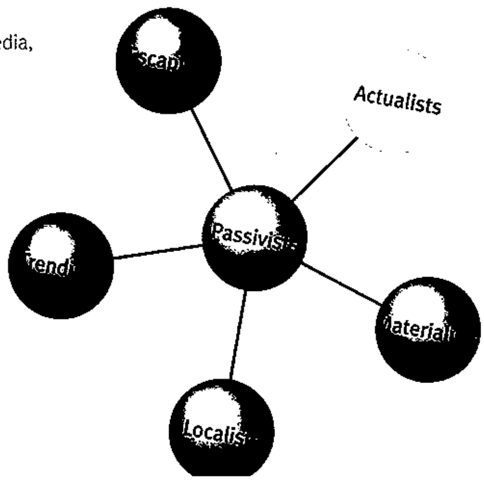
The analysis and tracking of the feedback included the origin of response by media or below-the-line, corresponding advertising pressure and message, the format/spot length and the programme environment.

This allowed us to provide analysis for future actions according to target type, offer type and media in order to generate response curves for specific infomercial stimuli.

The relationship between the brand and its clients will be slowly individualised: one-to-one marketing is the next step for the partnership between Carat and this client.

"We fully appreciate the quality of the work produced by the Carat team. They are a strongly involved team proposing innovative media planning solutions and in-depth research studies. We developed a very close relationship throughout our collaboration."
Pierre-Louis Marek, Group Marketing Director, Cofresco (Albal and Handibag).

Carat Carisma – you are what you read, watch and listen to!
In the Danish Carisma each segment is characterised by a unique pattern of media consumption and attitudes to media, reflecting various views of the world and identifying various opportunities and barriers for communication.

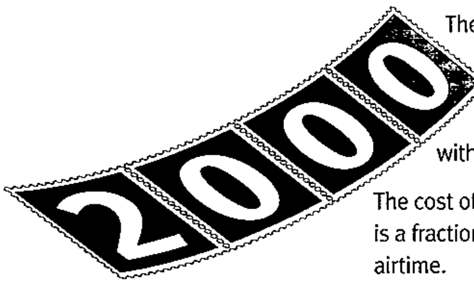


understanding consumers

Creating successful programming opportunities

Ray Kelly

To celebrate the Millennium, Royal Mail has created a two year programme of special edition stamps designed by the UK's leading contemporary artists.The communication task is to stimulate awareness and promote interest in this Royal Mail Millennium stamps programme.



The benefits of a series of advertiser funded programmes appearing on prime-time terrestrial television far outweighs the opportunities offered within traditional advertising routes:

The cost of producing a free to air programme is a fraction of the equivalent cost of advertising airtime.

The programme opens the possibility for the reappraisal of stamps and stamp collecting.

The innovative films, created by young filmmakers under the auspices of Richard Attenborough (Executive Producer), bring to life the themes behind the Millennium Collection. The presenters all have an interesting link to the subject matter e.g. Helen Sharman, an astronaut on the Endeavour, talking about Captain Cook's original voyage in his Endeavour.

As Royal Mail are the sole producer of stamps, any programme dedicated to this product does not require overt branding, helping to engage consumers more directly in the message. Targeted direct response media and direct mail to core collectors are used in support. Data capture is underpinning all activity to build long-term database segmentation.

Planning, delivering and implementing an advertiser funded programme of this scale builds on our strengths and experience of the media world.

Carat's Ad-itude Groups
Seekers look out for advertising and respond quickly.
Reactors respond more slowly but are positive.
Rejecters may respond to the right message.
Ignorers pay too little attention to notice.

Typical ROI: Seekers **250** Reactors **115** Rejecters **60** Ignorers **45**
(Typical ROI = index of response to advertising averaged across 14 TV and 6 press campaigns)

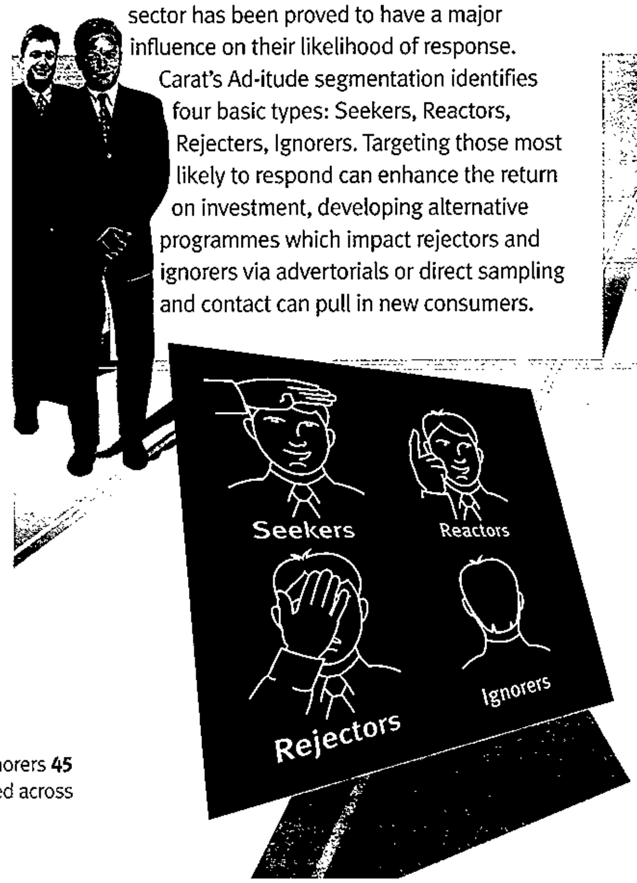
Consumer segmentation

Soren Bronee, Phil Gullen

To deliver effective communication strategies it is important to understand not only consumers' relationships with the brand and product sector but also their relationships with media and advertising. Carat's Carisma and Ad-itude segmentations have been designed to do this.

Consumers identify themselves by the media they consume. With today's unprecedented speed of change it's more important than ever to understand how consumers are changing their pattern of media consumption. Carisma reflects the consumer's perception of the world through their media habits giving clear guidance for targeting and competitive campaigns.

However, every marketeer knows that even the most tightly targeted advertising campaign will generate the desired response from some people but not from others. An individual's attitude to advertising for a given product sector has been proved to have a major influence on their likelihood of response. Carat's Ad-itude segmentation identifies four basic types: Seekers, Reactors, Rejecters, Ignorers. Targeting those most likely to respond can enhance the return on investment, developing alternative programmes which impact rejectors and ignorers via advertorials or direct sampling and contact can pull in new consumers.



understanding consumers under...

Driving response

Beverly Barker and Ellen Freeman

The end of the century advertising trends are characterised by two key advertiser needs, to make decisions based on data, rather than personal beliefs or opinions and to improve speed of marketing response.

Narrowcasting and One-to-one communications are becoming a reality and Carat continues to develop integrated and data orientated strategies for a growing number of client companies.

Carat's suite of decision modelling tools interpret data to understand the variables of consumer response and motivation. This enables customer segmentation modelling and personalised communication strategies.

Categories such as financial services have revolutionised their route to market over the last decade. At the end of the 90's the majority of insurance services are sold directly. Now by identifying sub-segments such as the family audience, by mapping life stage and life style attributes which heighten interest in a particular financial service, the most profitable contacts can be identified.

Truly integrated communications activity from Direct response TV and Press through to database mailing is managed with full accountability. Driving response to ensure absolute optimisation of call handling resource, maximising conversion to sales and positive returns on investment all underpin Carat's Direct campaign management.

Carat Freeman expertise in driving and accurately measuring response is evident for clients such as America Online, Gillette, Radio Shack, Smarter Kids, and Bizfon as we assess simple to complex techniques such as sweepstakes, one and two step lead generation, analysis of customer and/or sales data to identify product propensities, affinities and purchase cycles.

The objective is always to craft careful, cost effective experiments to continuously improve, optimise and make robust products and processes.

The accelerating pace of the marketing world demands that companies continuously improve the speed by which they execute the marketing process, from planning to reviewing and improving campaigns. The exciting opportunity presented by the internet and digital media to give real time feedback is the next challenge for breakthrough systems to harness data and drive response.

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Carat Kids – insights into children's media habits

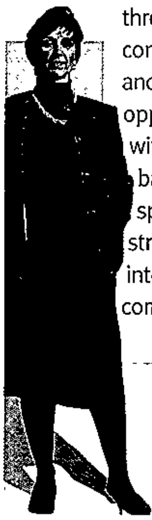
Rene Saal, Muriel Arnould

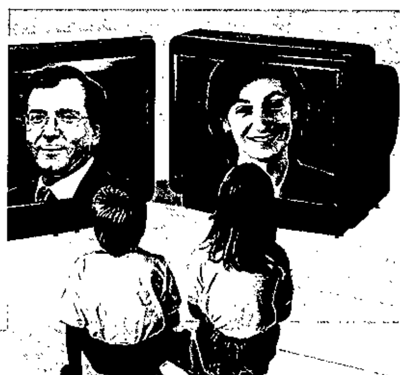
Watching television has always been a favourite activity for kids of all ages all over the world. Our research into the television viewing habits of kids, however, has highlighted a number of interesting trends. Over the past five years in Europe and the past ten in the USA, television viewing has been under increasing threat from new activities that have greater appeal for kids. According to Carat Kids, there is a new screen culture. Kids have learned that there is life away from TV and the TV set is no longer exclusively used for TV programmes. Kids are now able to interact with their TV set through the VCR, the computer and their game consoles. The advance of new technology and the "newer media" will present more opportunities for innovative communication with kids. At the same time, with broadcasters battling for children's share of mind with specialist channels and programmes at strategic times, we have the opportunity to integrate these new channels of communication more effectively.

Kids 8-14 spend 2.5 hours per non-school day watching TV.

Kids 8-14 living in the South of Europe are heavier TV viewers than those in the North.

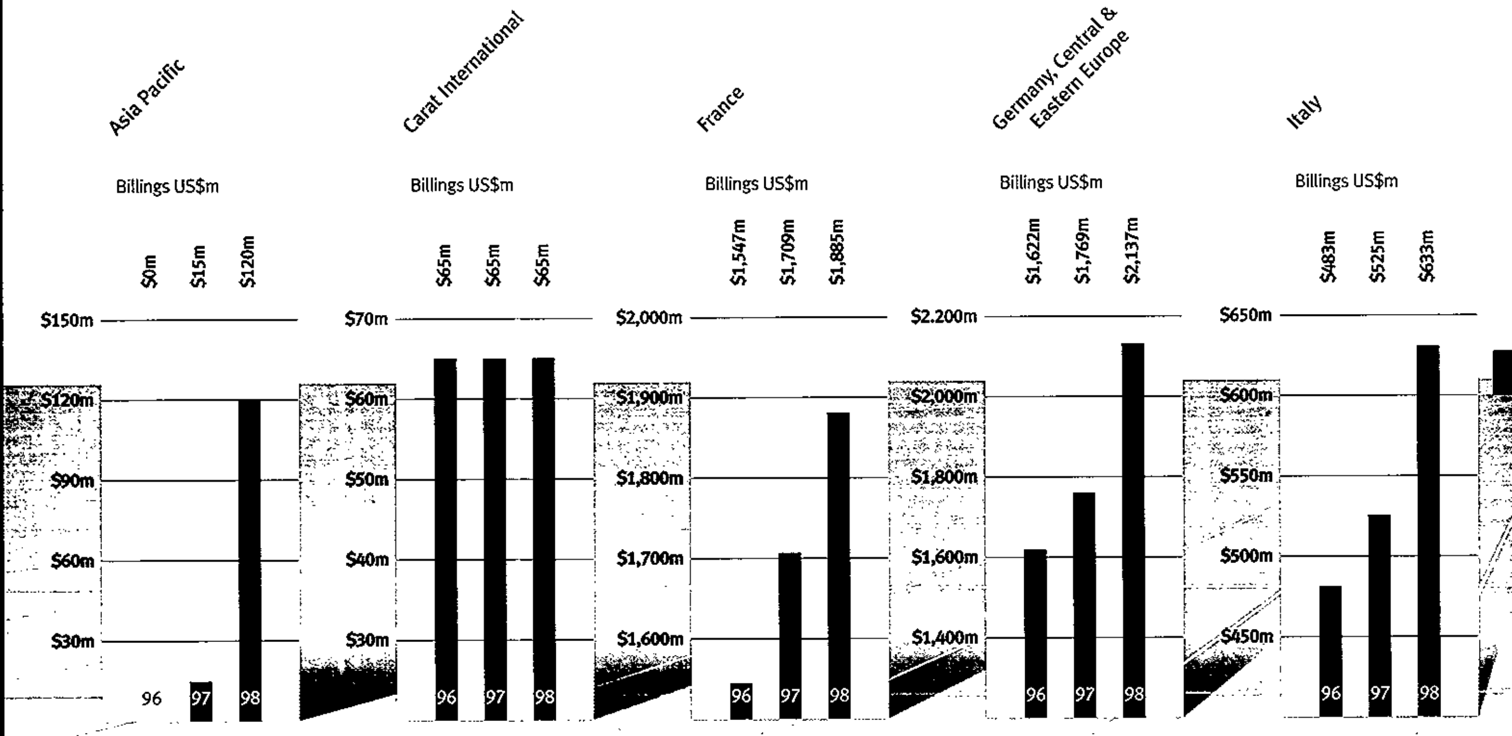
More than 80% of European kids have access to a VCR at home.





Regional performance summary

- All major countries performed on or ahead of objectives, maintaining strong leadership position.
- France, Germany and Italy achieved particularly strong results in terms of billings, ahead of the market by more than double.
- Continued good billings performance in the UK and Belgium, despite noticeable slowing down of the economy and market growth.
- Scandinavia, and Sweden in particular, are now back on track, growing on a more solid base of clients.
- An excellent new business performance from the USA operation (e.g. CBS, Sears, Primestar, Nabisco). USA accounted for 36% of Group total new business in 1998. Significant billings gained, up 34% year-on-year.
- Network developing satisfactorily in Asia Pacific, with existing operations in Hong Kong, India and Malaysia performing on budget, acquisitions of Bray/Halmarick completed in Australia and joint ventures set up in Thailand and Philippines under the Carat Brand.
- Further significant billings growth and market share gains from all other markets resulting from quality new business gains.



Asia Pacific	Carat International	France	Germany, Central & Eastern Europe	Italy
% growth billings: **800%**	% growth billings: **0.8%**	% growth billings: **10.3%**	% growth billings: **20.8%**	% growth billings: **20.6%**
% of group billings: **1.4%**	% of group billings: **0.8%**	% of group billings: **22.0%**	% of group billings: **25.0%**	% of group billings: **7.4%**

NB: At constant average 1998 exchange rates

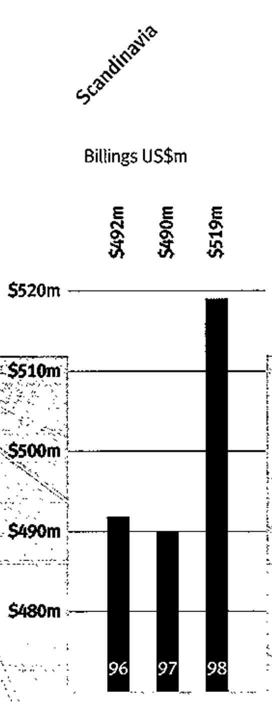
Clients gained in 1998

Germany Danone Group The Kellogg Company Markthauf France La Poste

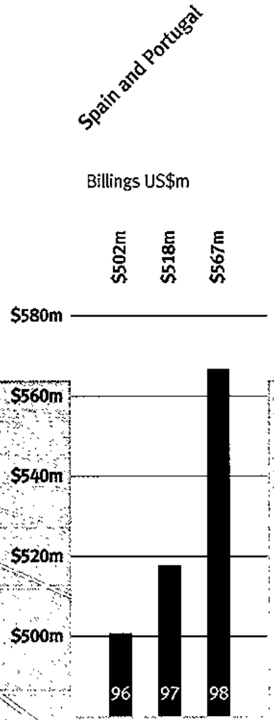
Spain Telefónica de España S.A. Italy Infostrada UK Cable & Wireless Communications plc Diageo plc Royal Mail

Asia Alfred Dunhill Asia Pacific Ltd. Mandarin Oriental Hotel Group India Cadbury India Ltd. Australia Lion Nathan Brewing

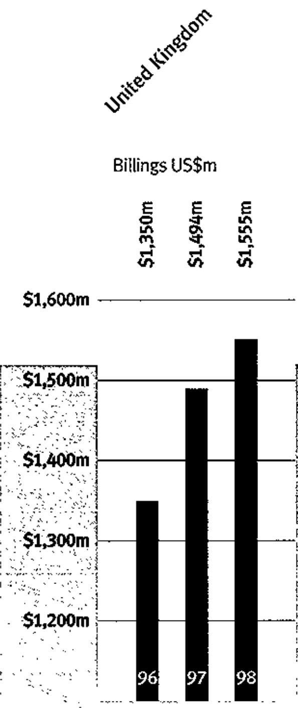
Europe adidas SCA USA CBS Television Network Nabisco Sears, Roebuck and Co. Global Club Med



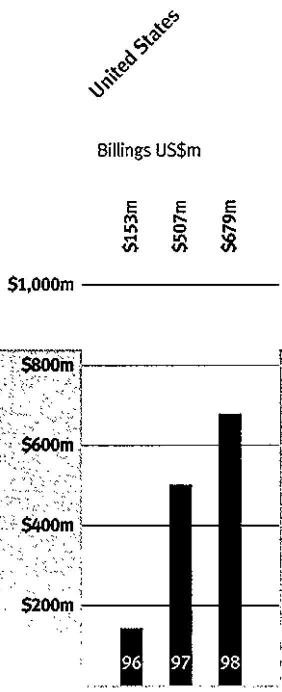
% growth billings:
5.9%
% of group billings:
6.1%



% growth billings:
9.5%
% of group billings:
6.6%



% growth billings:
4.1%
% of group billings:
18.2%



% growth billings:
33.9%
% of group billings:
8.0%

Financial review

The 1998 results demonstrate the Group's continued growth despite the strength of sterling. Turnover growth and improved gross margins both contributed to the strong financial performance. Operating margins have been maintained despite significant investment. Cash flow continues to be strong and remains a key focus for the business.

Financial highlights

	Year ended 31 December 1998	Year ended 31 December 1997	Increase historical rates	Increase constant currency
Trading results				
Turnover	**£4,130.0m**	£3,652.5m	13%	16%
Gross profit	**£221.0m**	£191.8m	15%	19%
% Gross profit to turnover	**5.4%**	5.3%		
Operating profit before amortisation of goodwill	**£50.6m**	£44.4m	14%	17%
% Operating profit to gross profit	**23%**	23%		
Profit before tax, amortisation of goodwill and exceptional items	**£51.1m**	£43.5m	17%	21%
Profit before tax	**£50.6m**	£45.6m	11%	14%
Effective underlying tax rate	**28.4%**	28.0%		
Profit for the financial year	**£35.5m**	£32.8m	8%	11%
Shareholder returns				
Earnings per share				
– basic	**4.0p**	3.8p	3%	6%
– fully diluted	**3.7p**	3.4p	6%	9%
Ordinary dividend per share				
– interim	**0.35p**	0.3p	17%	17%
– final	**0.5p**	0.4p	25%	25%
Total	**0.85p**	0.7p	21%	21%
Cash flow				
Operating cash flow	**£57.0m**	£54.5m	5%	8%
Net funds/(debt) at year end	**£36.9m**	£(2.2)m		

Trading overview

During 1998, the Group's billings (defined as the annualised value of media purchased on behalf of clients, before agency discounts) increased by 13% to US$8.5 billion. Market share strengthened in Europe and we maintained our position as market leader in nearly all the principal European advertising markets. At the same time we have made substantial progress in North America; having only entered the market in October 1996, North America now represents over 12% of the Group's 1998 turnover. We have also made further progress in developing our Asia Pacific network.

Turnover

Turnover of £4,130.0 million, representing the cash being handled by the Group, showed a 13% improvement on 1997. On a constant currency basis, turnover was up over 16%. In Europe, turnover grew by 8% (11% constant currency) with France, Spain, Italy, UK and Germany all performing particularly well. We also had good turnover growth in the Central and Eastern Europe region. In the USA, turnover growth was an exceptional 51%, partly due to recent acquisitions and now represents some 12% of the Group's 1998 turnover. Asia Pacific turnover also grew strongly from a low base. Excluding 1998 acquisitions, turnover growth on a constant currency basis was 9%. Average annual growth on a constant currency basis between 1995 and 1998 was 16%.

1998 was a record year for new business; this should positively impact the Group's turnover development, particularly in the USA, in 1999.

Gross profit

Gross profit of £221.0 million rose by 15% reflecting not only a strong increase in turnover but also a further improvement in margins. Group margins rose by 0.1% to 5.4%, adding £4.1 million to gross profit, as a result of our strategic focus on developing and improving the Carat product and range of value added services. On a constant currency basis, gross profit would have risen by 19%. The margin growth was consistent across all markets.

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. In 1998, the Group continued to meet its objective of sustaining and strengthening margins by identifying new products and service offerings to complement our core media planning and buying activity.

Operating expenses

Operating expenses (excluding amortisation of goodwill) of £170.4 million represent a 15% increase over 1997. On a constant currency basis, this equates to an increase of 19%. The increase in overheads in our underlying businesses was 9% and in Europe, the increase was 4% (7% constant currency). Much of the increase in the Group's operating expenses reflects the impact of recent acquisitions and our geographical expansion together with the costs of extending the Group's range of services and related training programmes. Notwithstanding these investments, our operating margin has been maintained at 23%.

The total staff complement at 31 December 1998 was 2,869 as compared to 2,510 at 31 December 1997. Acquisitions in 1998 accounted for 167 of this increase. Consistent with preceding years approximately two-thirds of the Group's operating expenses are related to personnel.

Management remains focused on enhancing operating efficiency and productivity and, although we compare favourably to similar companies, we will strive to make further progress in this area.

Pre-tax profits

Overall, profit before tax and amortisation of goodwill was £51.1 million. Restated on a constant currency basis, this equates to £52.5 million. In 1997, our profit before tax included a £2.1 million gain arising on the sale of our 19.9% investment in Manning Gottlieb Media in the UK and therefore the underlying pre-tax profits for that year were £43.5 million. Thus, our underlying growth in pre-tax profits was a healthy 21%.

Profit before tax was £50.6 million, a 11% increase on the £45.6 million reported in 1997. Tax has been provided at 28.4% based on profit before amortisation of goodwill.

Between 1994 and 1998, the Group has achieved a compound average annual underlying growth in profit before tax of 17% on a historical basis and 22% on a constant currency basis.

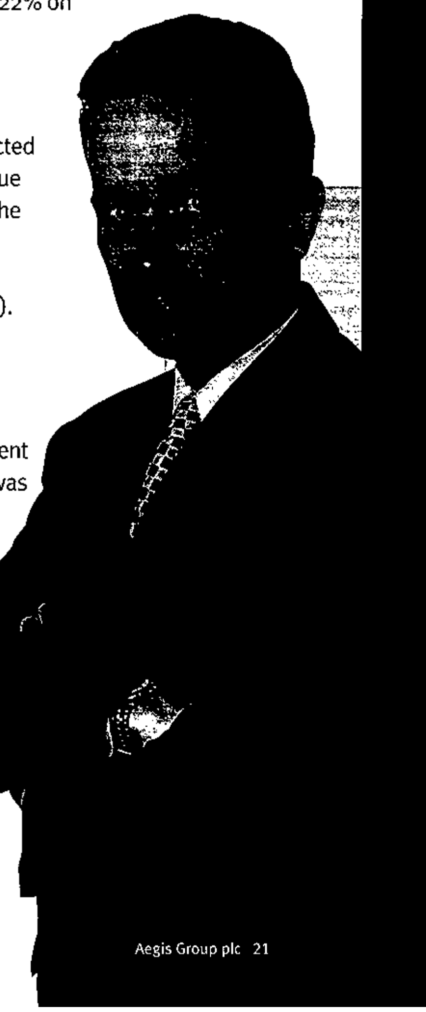
Foreign exchange

As noted above, the 1998 results were affected by adverse foreign exchange movements due to the strength of sterling. The majority of the Group's profits are earned outside the UK. The impact of foreign exchange on profits in 1998 was £1.4 million (1997: £7.2 million).

Cash flow, borrowings and interest

Working capital management continues to be a key element of the treasury management programme. Operating cash flow for 1998 was strong at £57.0 million equivalent to 114% of operating profit, the third successive year that operating cash flow has exceeded operating profit.

Free cash flow (after interest, tax, capital expenditure and deferred consideration on prior period acquisitions) was £29.1 million, which represents 58% of operating profit.



Colin Day, Group Finance Director.

Net funds at 31 December 1998 stood at £36.9 million, helped in part by £17.4 million of cash received from warrant subscriptions and option exercises. During 1998, the Group repaid a further £1.2 million of term borrowings.

Net interest receivable, excluding the amortisation of refinancing costs, was £0.8 million compared to a charge of £0.6 million in 1997. Included within the interest charge is £0.7 million (1997: £0.6 million) relating to dividends payable on the £10.5 million preference shares issued in part consideration for the acquisition of the Carat ICG in 1997.

Taxation

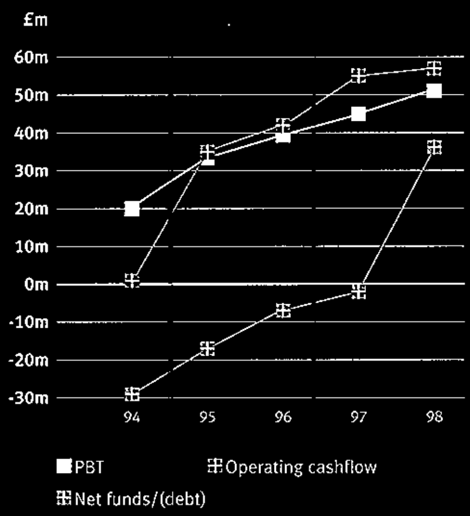
The Group's tax charge in the profit and loss account is at an underlying effective rate of 28.4% (1997: 28%). The Group's effective tax rate continues to be reduced by the offset of tax losses brought forward. An upward trend in the effective tax rate is expected as tax losses are utilised in future 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 £35.5 million from £32.8 million in 1997.

Basic earnings per share of 4.0 pence grew 3% versus 1997 affected principally by new shares in issue on conversion of preference shares and warrant subscriptions. Fully diluted earnings per share, after goodwill amortisation, of 3.7 pence rose 6% on 1997. On an underlying basis and stated at constant currency, this rise was 18%.

Profits, operating cash flow and cash/debt (1994-1998)



An interim dividend of 0.35 pence per ordinary share was declared and paid in 1998 as a Foreign Income Dividend ("FID"). This was a 17% increase versus the 1997 interim dividend. The Board is recommending a final dividend of 0.5 pence per ordinary share, which makes 0.85 pence per ordinary share for the full year. This represents a 21% increase on the 0.7 pence per share paid in respect of 1997. With effect from 6 April 1999, the government has abolished FIDs and Advance Corporation Tax, with the result that the final dividend will be paid as a conventional dividend.

Acquisitions

During 1998, the Group completed seven acquisitions focused around its strategic goals of enhancing and broadening its range of services and expanding globally. The Group also purchased outstanding minority interests in Switzerland and Turkey as well as purchasing a further 24% in MW Office in Germany. Further details on these acquisitions are set out in note 20 to the Accounts.

The total upfront investment in these acquisitions was £8.7 million with maximum deferred consideration payable in cash of £9.1 million, subject to challenging growth objectives.

As a result of the transactions undertaken during 1998, total deferred liabilities related to acquisitions have increased to £23.8 million from £21.5 million in 1997, after having paid £6.2 million in deferred consideration on the Group's pre-1998 acquisitions. Approximately £12.1 million may be paid as deferred consideration in 1999. In addition, within the Group's net funds figure, there is £10.5 million in respect of preference shares issued by a wholly-owned, US subsidiary holding company of Aegis Group plc to the vendors of the Carat ICG, which has been treated a debt in accordance with UK accounting standards.

Since 1995, the Group has spent £62.9 million (of which £34.3 million is deferred) on acquiring 17 new businesses and a further £26.9 million purchasing outstanding minority interests on prior period acquisitions. All consideration has been financed out of free cash flow. If all of the challenging growth criteria were to be met, our six acquisitions in North America would cost £45.5 million, the seven acquisitions in Europe would cost a maximum of £11.7 million and our three acquisitions in the Asia Pacific region would cost no more than £5.7 million. For all of our acquisitions, a key aim is to ensure that the Group has a rapid payback of cash and that all acquired businesses optimise their operating cash flows. To date, these objectives have been met.

The Group will continue to pursue actively acquisition targets that fit in with its stated strategy to expand its geographical network or support its product and service development. The Group is currently assessing a number of further opportunities, particularly in the USA, South America and the Asia Pacific region. We will continue to ensure that all future acquisitions are made on a financially prudent basis.

Consodata

On 18 January 1999, the Group disposed of its 46.82% interest in the Consodata Group based in France for £6.5 million (FFr 60.8 million) to the existing management and to the Alpha Investment Group. By mutual agreement, it was decided that Aegis would divest its holding in the Consodata Group to allow Consodata's management to pursue its own expansion plans in Europe. As detailed in note 24 to the accounts, this will give rise to a modest profit in 1999.

Accounting policies

1998 has seen a number of changes in UK accounting standards, of which Financial Reporting Standard 10 ("FRS 10") has had the most significant impact.

FRS 10 has changed the way that goodwill arising on acquisitions is treated in the UK. Prior to 1 January 1998, the Group followed normal accounting practice in the UK to write off purchased goodwill immediately to reserves and charge it to the Profit and Loss account only on the subsequent disposal of the business to which it related. For acquisitions prior to 1 January 1998, the Group has elected to continue with this accounting policy.

In accordance with FRS 10, goodwill arising on each acquisition on or after 1 January 1998 is capitalised as an asset in the balance sheet. The Directors examine each acquisition on a case by case basis to determine the appropriate accounting treatment. Having reviewed our 1998 acquisitions, the directors have taken the view that goodwill arising on all the 1998 acquisitions should be amortised over their estimated useful economic life of 20 years. For the year ended 31 December 1998, the Group recognised £0.5 million for amortisation of goodwill on 1998 acquisitions.

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 financial control

Consistent with previous years the Group has maintained its policy to examine the internal financial 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 with further work undertaken to reflect areas of particular risk or concern. Further details on the Group's system of internal financial control is set out in the Corporate Governance Report. In 1998, the Group's review of its internal financial controls focused particular effort on Year 2000 computer system issues and also to ensure that the Group is fully prepared for the implementation of European Monetary Union. These are discussed further below.

Year 2000

Assuring the ongoing operation of business systems and processes into the next millennium is a key focus of management. Across all our businesses units we have undertaken a comprehensive assessment programme to identify the issues to be addressed and a series of action plans are in the process of being implemented. The Group has programmes in place to ensure that its computer systems achieve Year 2000 compliance by September 1999. The Board receives regular progress reports on these matters.

The operation of our business depends not only on our own computer systems but, to various degrees, on those of our suppliers and customers. There is therefore an exposure to further risk and we are working with our suppliers and customers to minimise these risks. The Group seeks to obtain formal assurance where appropriate. It should also be noted that it is not practically possible to obtain absolute assurance that there will be no business disruption due to the Year 2000 issue.

During 1998, the Group spent £0.5 million on Year 2000 compliance and it expects to spend a further £0.5 million in 1999.

Euro

On 1 January 1999, the Euro was introduced in 11 countries within the European Union and I am happy to confirm that all our operations in those territories are now able to handle transactions in both their local currency and in the Euro.

Conclusion

The Group's results continue to improve. Margin growth and cost 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 1998 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 former 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.

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 Bell Security Limited and was formerly 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. Prior to joining Mattel, he was President of a division of Warner Lambert and has also held a senior position with Colgate-Palmolive.

Douglas Flynn
non-Executive

Douglas Flynn was appointed to the Board on 15 May 1998. He is Managing Director of News International plc and has also been a managerial consultant in media companies and held a number of senior positions in the Australian newspaper industry.

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 and of Fl Group plc. He is a former Deputy Governor of the Bank of England and was Chairman of Midland Bank plc from 1987 to 1991.

Sir Peter Thompson
non-Executive

Sir Peter Thompson was appointed to the Board on 26 May 1993. He is, inter alia, Chairman of Fl Group plc, and Child Base Ltd. He is a former non-executive director of Smiths Industries plc and a non-executive director of Brewin Dolphin Holdings plc. In addition, he is non-executive Chairman of Goldcrest Homes plc 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.

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

Directors and advisers

Directors of Aegis Group plc

Frank S Law CBE	Non-Executive Chairman
Crispin Davis	Chief Executive Officer
Colin Day	Group Finance Director
Kai Hiemstra	
Ray Kelly	
Bruno Kemoun	
Eyrck Rebbouh	
John Amerman	Non-Executive
Douglas Flynn	Non-Executive
Sir Kit McMahon	Non-Executive
Sir Peter Thompson	Non-Executive
Philippe Villin	Non-Executive

Members of Carat Executive

Crispin Davis Colin Day Ray Kelly Bruno Kemoun Eryck Rebbouh	Executive Directors of Aegis Group plc
Jordi Calvet	Chief Executive, Carat España
Pat Doble	Group Marketing Director
Eric Drancourt	Chief Executive, Carat International
Hans Germeraad	Chief Executive, HMS & Carat Germany
Walter Hartsarich	Chief Executive, Carat Italia
Stig Bogh Karlsen	Chief Executive, MMA Carat
Tage Krogh	Chief Executive, Carat Scandinavia
William Skerrett	Group Human Resources Director
David Verklin	Chief Executive Officer, Carat North America
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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1 Embankment Place
London WC2N 6NN

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 1998.

Results and dividends

The profit and loss account is set out on page 35 and shows a profit for the financial year of £35.5 million (1997: £32.8 million).

An interim dividend of 0.35p per share was paid on 6 October 1998 as a Foreign Income Dividend ("FID") to ordinary shareholders. The directors recommend a final dividend for the year of 0.50p per share which, if approved at the Annual General Meeting, will be paid on 1 July 1999 to ordinary shareholders registered at 11 June 1999. The total dividend for the year will then amount to 0.85p per share (1997: 0.7p).

The remaining profit is transferred to reserves.

Principal activity

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

Review of business and future developments

A review of the business and likely future developments of the Group is given in the Chairman's and Chief Executive's statements on pages 4 to 8.

Research and development

The Group is involved in media research and development in order to offer clients the most advanced media communication services. During the year the Group spent £19.5 million (1997: £14.8 million) on research and development.

Donations

The Company made charitable donations of £10,200 (1997: £8,925) during the year in the United Kingdom. There were no political donations during the year in the United Kingdom (1997: £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 and to arrange appropriate training.

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

Supplier payment policy

Whilst the Company does not impose a formal code on payment practice on its subsidiaries, the Group nevertheless does have the following policy concerning the payment of its suppliers, 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 1998, the Group had 63 days purchases outstanding (1997: 62 days). The creditor day analysis is not applicable to the holding company.

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 report of the directors on pages 28 to 31.

The Articles of Association require one third of the directors to retire by rotation at each Annual General Meeting. In accordance with the Company's Articles of Association, Eyrck Rebbouh, Sir Peter Thompson and Philippe Villin retire from the Board by rotation and, being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting. Sir Kit McMahon also retires by rotation, but has decided not to stand for re-election. Douglas Flynn, who was appointed to the Board subsequent to the Annual General Meeting held in 1998, offers himself for election. He was appointed on 15 May 1998 and does not have a service contract with the Company.

Eyrck Rebbouh 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 paid.

Neither Sir Peter Thompson nor Philippe Villin has a contract with the Company for their services as directors.

On 15 May 1998, both Dominic Shorthouse and John Vogelstein, who were non-executive directors, resigned following the placement of Warburg, Pincus & Co.'s entire shareholding.

Substantial shareholdings

In accordance with the requirements of the London Stock Exchange, the following interests in the issued ordinary shares of 5p each of Aegis Group plc as at 22 March 1999 are noted:

Deutsche Bank AG & subsidiaries	10.93%
Scottish Widows	9.14%
FMR Corp (Fidelity Investments)	4.60%

Report of the directors
continued

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, a resolution will be proposed to increase the authorised share capital of the Company by 15% from £60,000,000 to £75,000,000. This increase, if passed, will enable the Company to maintain a balance of authorised but unissued ordinary share capital in order to have the flexibility to issue shares, subject to having the authority to do so if the circumstances are such that the directors believe that it would be beneficial for the Company to do so.

Resolutions will also 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 60 and 61 is an ordinary resolution and provides the directors with authority to allot securities in the Company up to an aggregate nominal value of £15,900,000.

If passed, the resolution will enable the directors to allot a maximum of 318,000,000 ordinary shares which represent approximately 33% of the issued ordinary share capital as at 22 March 1999. 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 pursuant to (a) issues by way of rights and (b) other issues up to an aggregate nominal value of £2,387,850.

The authority conferred by resolution 10 is limited as regards issues of shares other than by way of rights issues to 47,757,000 ordinary shares amounting to approximately 5% of the issued ordinary share capital of the Company as at 22 March 1999. In relation to the exercise of this authority the Company will have regard to the guidelines published by the investment committees of both the Association of British Insurers and the National Association of Pension Funds. The authorities sought by these resolutions are to replace the existing powers of the directors which expire at the conclusion of the Annual General Meeting and both of these authorities will lapse at the conclusion of the next Annual General Meeting of the Company.

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 47,996,000 ordinary shares (approximately 5% of the issued ordinary share capital as at 22 March 1999) 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.

Auditors

Following the merger of Price Waterhouse and Coopers and Lybrand on 1 July 1998, Price Waterhouse resigned as auditors in favour of the new firm, PricewaterhouseCoopers, and the directors have appointed PricewaterhouseCoopers to fill the casual vacancy created by the resignation.

A resolution to re-appoint PricewaterhouseCoopers as auditors and to authorise the directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting. Special notice has been given to the Company of the intention to propose this resolution.

Corporate governance

Details concerning the Group's arrangements relating to corporate governance and its compliance with best practice are given on pages 32 and 33. The Remuneration report is set out on pages 28 to 31.

Directors' responsibilities

The following statement, which should be read in conjunction with the auditors' statement of auditors' responsibilities set out on page 34 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 35 to 59, the Company and the Group have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and that all accounting standards which they consider to be applicable have been followed, subject to any explanations disclosed in the notes to the financial statements.

The directors have responsibility for ensuring that the Company and the Group keep 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.

Remuneration report

Throughout 1998, the Company complied with the provisions of Schedule A of the Combined Code of Corporate Governance relating to the design of performance related remuneration. In preparing this report the Board has followed the provisions of Schedule B of the Combined Code. The directors have an established Remuneration Committee.

Composition of the Remuneration Committee

Members of the Remuneration Committee are disclosed on page 32 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 and 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 markets. The directors do not believe there are any companies which are directly comparable with Aegis Group plc. However, in determining remuneration packages, the Remuneration 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 and the Aegis Group Management Incentive Scheme which was adopted in May 1998. Grant and exercise of options are subject to the achievement of specific conditions. The conditions in respect of the 1995 Executive Share Option Schemes 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".

The conditions in respect of the Aegis Group Management Incentive Scheme are:

- that the Company's total shareholder return (share price growth plus re-invested dividends) over the performance period must reach 15% per annum compound
- that the total shareholder return must match that of the FTSE Actuaries 500 Index over the same period.

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 contributions 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.

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 as executive chairman of HMS & Carat Group in Germany has a service contract which expires on 31 December 1999.

Non-executive directors' fees

Fees for non-executive directors are determined by the Board and are disclosed below. The non-executive directors do not participate in the setting of their own remuneration.

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

Remuneration report

continued

Directors' remuneration

		Basic salary £'000	Fees £'000	Benefits £'000	Annual bonus £'000	Other £'000	**Total 1998 £'000**	Total 1997 £'000	**Pensions 1998 £'000**	Pensions 1997 £'000
John Amerman	(a)	–	25	–	–	–	**25**	–	–	–
Crispin Davis	(b)	505	–	17	250	–	**772**	971	**254**	229
Colin Day		230	–	10	101	–	**341**	319	**48**	41
Douglas Flynn	(c)	–	16	–	–	–	**16**	n/a	–	n/a
Kai Hiemstra	(d)	232	–	32	447	–	**711**	774	–	–
Ray Kelly	(e, j)	212	–	19	106	–	**337**	218	**72**	169
Bruno Kemoun	(f, j)	270	–	3	–	109	**382**	355	–	–
Frank S Law CBE		100	–	18	–	–	**118**	117	–	–
Sir Kit McMahon		–	25	–	–	–	**25**	25	–	–
Eryck Rebbouh	(f, j)	270	–	3	–	109	**382**	355	–	–
Dominic Shorthouse	(g)	–	–	–	–	–	**–**	–	–	–
Sir Peter Thompson		–	25	–	–	–	**25**	25	–	–
Philippe Villin	(h)	–	25	–	–	95	**120**	109	–	–
John Vogelstein	(i)	–	–	–	–	–	**–**	–	–	–
Charles Hochman	(k)	–	–	–	–	–	**–**	25	–	–
Totals		1,819	116	102	904	313	**3,254**	3,293	**374**	439

Notes:

(a) John Amerman has opted to receive his fees in ordinary shares since his appointment as a non-executive director on 12 December 1997.

(b) A long term bonus, subject to performance criteria including profitability set by the Remuneration Committee, was paid to Crispin Davis upon publication of the annual report for the year ending 31 December 1997. The payment was made half in cash and half by the allotment of shares in the Company at the then prevailing market price. The total cost was disclosed under "Other" remuneration in the 1997 Report and Accounts.

(c) Douglas Flynn was appointed a non-executive director on 15 May 1998. His fees are paid directly to News International plc and he receives no benefit from them.

(d) 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.

(e) Ray Kelly elected to receive part of his 1998 salary as additional pension contributions, consistent with previous years. In past years he has also elected to receive part of his annual bonus as additional pension contributions.

(f) Bruno Kemoun and Eryck Rebbouh are two of the shareholders of Société Internationale de Conseil pour la Communication ("SICC") which provides international management services to the Group. Fees are paid to SICC at a fixed amount together with a performance related element.
The salaries received by Bruno Kemoun and Eryck Rebbouh from SICC are included in "Basic salary" and their proportion of the profit before tax of SICC is shown as "Other" emoluments.

(g) Dominic Shorthouse resigned as a non-executive director on 15 May 1998.

(h) Philippe Villin has a consultancy agreement with Carat France SA which was entered into on 1 June 1995 Fees of FFr882,000 were paid in 1998 in relation to that agreement.

(i) John Vogelstein resigned as a non-executive director on 15 May 1998.

(j) In addition, a payment of £608,273 each was paid during the year 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.

(k) Charles Hochman resigned on 31 December 1997.

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

There were three directors who had benefits accruing under the 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 1998.

Remuneration report

continued

Directors' interests

The directors of the Company in office at the end of the year, and their interests in the share capital and debentures of the Company as at 22 March 1999, 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	
	22 March 1999	**31 December 1998**	31 December 1997
John Amerman	**21,353**	**21,353**	900
Crispin Davis	**202,814**	**202,814**	100,300
Colin Day	**75,932**	**75,932**	75,905
Douglas Flynn	–	–	n/a
Kai Hiemstra	–	–	–
Ray Kelly	**287,188**	**287,188**	287,188
Bruno Kemoun	**2,286,432**	**2,286,432**	4,786,432
Frank S Law CBE	**1,029,950**	**1,029,950**	1,026,752
Sir Kit McMahon	**146,250**	**146,250**	136,860
Eryck Rebbouh	**2,286,432**	**2,286,432**	4,786,432
Dominic Shorthouse	n/a	n/a	–
Sir Peter Thompson	**197,675**	**197,675**	193,606
Philippe Villin	–	–	–
John Vogelstein	n/a	n/a	–

The middle market price of the ordinary shares of 5p each as derived from the Stock Exchange Daily Official List on 31 December 1998 was 87.75p and the range during the year was 64.25p to 112p. The share price on 22 March 1999 was 128.75p.

Remuneration report

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	Exercised during year	Options held at end of year	Exercise price	Date from which exercisable	Expiry date
Crispin Davis*	9,411,764	–	–	9,411,764	25.5p	26.10.1997	25.10.2004
	–	11,700,000	–	11,700,000	87p	15.5.2001	14.5.2004
Colin Day	1,132,075	–	–	1,132,075	26.5p	21.6.1998	20.6.2005
	365,385	–	–	365,385	52p	2.7.1999**	1.7.2006
	321,569	–	–	321,569	63.75p	8.7.2000	7.7.2007
	–	2,500,000	–	2,500,000	87p	15.5.2001	14.5.2004
	–	113,924	–	113,924	98.75p	2.6.2001	1.6.2008
Kai Hiemstra	1,014,083	–	(1,014,083)	Nil	26.5p	21.6.1998	20.6.2005
	567,973	–	–	567,973	52p	2.7.1999**	1.7.2006
Ray Kelly	230,375	–	(230,375)	Nil	29.3p	5.5.1996	4.5.2003
	25,000	–	(25,000)	Nil	28.5p	25.5.1997	24.5.2004
	716,981	–	–	716,981	26.5p	21.6.1998	20.6.2005
	394,231	–	–	394,231	52p	2.7.1999**	1.7.2006
	349,804	–	–	349,804	63.75p	8.7.2000	7.7.2007
	–	2,000,000	–	2,000,000	87p	15.5.2001	14.5.2004
	–	127,594	–	127,594	98.75p	2.6.2001	1.6.2008
Bruno Kemoun	256,410	–	–	256,410	27.3p	18.9.1995	17.9.2002
	963,324	–	–	963,324	26.5p	21.6.1998	20.6.2005
	510,997	–	–	510,997	52p	2.7.1999**	1.7.2006
	364,050	–	–	364,050	63.75p	8.7.2000	7.7.2007
	–	2,000,000	–	2,000,000	87p	15.5.2001	14.5.2004
	–	128,697	–	128,697	98.75p	2.6.2001	1.6.2008
Eryck Rebbouh	256,410	–	–	256,410	27.3p	18.9.1995	17.9.2002
	963,324	–	–	963,324	26.5p	21.6.1998	20.6.2005
	510,997	–	–	510,997	52p	2.7.1999**	1.7.2006
	364,050	–	–	364,050	63.75p	8.7.2000	7.7.2007
	–	2,000,000	–	2,000,000	87p	15.5.2001	14.5.2004
	–	128,697	–	128,697	98.75p	2.6.2001	1.6.2008
Totals	**18,718,802**	**20,698,912**	**(1,269,458)**	**38,148,256**			

Notes:

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

**Following discussions with ABI, it was agreed that the options issued under the Unapproved Executive Share Option Scheme in 1996 should have their initial exercise period reduced from five to three years.

Options granted during the year are subject to performance conditions as described in the paragraph headed "Share options" on page 28. During the year, the following directors or members of their immediate families exercised and sold options:

- Ray Kelly exercised and sold two options representing 255,375 shares and realised a gross gain of £96,476.
- Kai Hiemstra exercised and sold one option representing 1,014,083 shares and realised a gross gain of £633,801.

Since the year end, the following directors or members of their immediate families exercised and sold share options:

- Crispin Davis has exercised and sold part of a share option in respect of 2,000,000 ordinary shares and realised a gross gain of £2,070,000.
- Colin Day exercised and sold part of a share option in respect of 500,000 ordinary shares and realised a gross gain of £517,500.
- Ray Kelly exercised and sold part of a share option in respect of 350,000 ordinary shares and realised a gross gain of £348,250.

No other directors have exercised or sold options during the period ended 22 March 1999. In addition, no options have expired or lapsed during the year in respect of the directors.

Corporate governance

On 25 June 1998 the final version of the Principles of Good Governance and Code of Best Practice ("The Combined Code") was issued by the London Stock Exchange. The Combined Code has 14 principles of corporate governance indentified by the Hampel Report and the Board has reviewed how the Group complies with all the relevant principles. They believe that they have fully complied with all the principles and the provisions set out in Section 1 of the Combined Code with the exception of reducing the notice periods of the executive directors' service contracts to one year, the appointment of non-executive directors for a specified term and the constitution of the Remuneration Committee. These matters are currently under review.

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 12 directors, comprising six executive directors and six non-executive directors, who, with the exception of Frank S Law CBE and Philippe Villin, are considered to be independent. The Board meets regularly throughout the year.

Sir Peter Thompson, a non-executive director, has been nominated as the senior director to whom shareholders may convey their concerns in the event that they do not wish to involve either the Chairman or the Chief Executive. Sir Peter Thomson is also Chairman of the Audit Committee and a member of the Nomination and Remuneration Committees.

The Company communicates with both institutional and private shareholders and encourages their attendance and participation at the Annual General Meeting.

The Board has appointed the following committees:

Audit Committee

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

Remuneration and Nomination Committees

The Remuneration and Nomination Committees both comprise Sir Kit MacMahon (Chairman), Douglas Flynn, Frank S Law CBE and Sir Peter Thompson. 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 controls

The Board is responsible for establishing and maintaining the Group's system of internal financial control. The internal control systems are designed to address the risks and needs of operations. Any system can provide only reasonable and not absolute assurance against material misstatement or loss.

The key procedures which the directors have established are as follows:

- → The Board of directors has overall responsibility for the Group's system of internal financial controls. The full Board meets regularly and has formally adopted a schedule of matters which are required to be brought to it for discussion, thus ensuring that it maintains full and effective control over appropriate financial controls. The Group's strategic direction is reviewed annually by the Board and the Chief Executive and the executive directors consider the strategy for the individual businesses.
- → The Board has put in place an organisational structure with clearly defined lines of responsibility and delegation of authority. Annual plans and performance targets for each business are set by the executive directors and reviewed by the Board in the light of the Group's overall objectives. The division of responsibility at Board level is achieved by the appointment of a non-executive Chairman and a Chief Executive. Management of the Group's day to day activity is delegated to the Chief Executive and members of the Executive Committee.
- → Each operation's Chief Executive is responsible for:
  - the conduct and performance of their business
  - ensuring an effective system of internal controls is in place
  - meeting defined reporting timetables and ensuring compliance with the Group's accounting policies, controls and definitions – ensuring the integrity and accuracy of the Group's accounting records
  - signing-off their accounts on a monthly basis subject to the limitations set within the annual business strategy and the reserved powers and sanctioning limits laid down by the Board.
- → The Board and the Executive Committee receive, on a monthly basis, financial results from each business and the Group reports bi-annually to shareholders based on a standardised reporting process.

Auditors' report to the members of Aegis Group plc

We have audited the financial statements on pages 35 to 59 which have been prepared under the historical cost convention and the accounting policies set out on pages 40 and 41.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report including, as described on page 27, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on pages 32 and 33 reflect the Company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Group's Corporate governance procedures or its internal controls.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 1998 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.

PricewaterhouseCoopers

Chartered Accountants and
Registered Auditors
London

22 March 1999

Corporate governance

continued

→ The Audit Committee, comprised exclusively of non-executive directors, reviews the effectiveness of the internal financial control environment of the Group and receives reports from Group Finance and the external auditors on a regular basis.

→ The internal control system is reviewed by Group Finance which operates on a global basis and reports to management and the Audit Committee. Group Finance and the external auditors also co-ordinate their work to the extent necessary for the external auditors to express their audit opinion on the Group's report and accounts.

The directors confirm that the Audit Committee has carried out a review of the effectiveness of the system of the Group's system of internal financial controls as it operated during the year. As permitted by the London Stock Exchange, the Group has complied with Code Provision D.2.1. on internal control in accordance with the guidance given for directors on internal control and financial reporting that was issued in December 1994.

Going concern

In accordance with the Combined Code 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.

By order of the Board

John Rowland

John Rowland FCIS
Company Secretary

11A West Halkin Street
London SW1X 8JL
22 March 1999

Financial statements

Consolidated profit and loss account

for the year ended 31 December 1998

	Notes	1998 £'m	1997 £'m
Turnover:			
– continuing operations		**4,035.8**	3,447.1
– acquisitions		**94.2**	205.4
	2	**4,130.0**	3,652.5
Cost of sales		**(3,909.0)**	(3,460.7)
Gross profit		**221.0**	191.8
Operating expenses before amortisation of goodwill		**(170.4)**	(147.9)
Amortisation of goodwill		**(0.5)**	–
Operating expenses		**(170.9)**	(147.9)
Income from interests in associated undertakings		**–**	0.5
Operating profit:			
– continuing operations		**48.7**	42.9
– acquisitions		**1.4**	1.5
		50.1	44.4
Profit on disposal of fixed asset investments	3	**–**	2.1
Interest and similar charges:			
– interest receivable		**5.2**	4.3
– interest payable	4	**(4.4)**	(4.9)
– amortisation of refinancing costs	4	**(0.3)**	(0.3)
Net interest receivable/(payable)		**0.5**	(0.9)
Profit on ordinary activities before taxation	2, 5, 6	**50.6**	45.6
Tax on profit on ordinary activities	7	**(14.5)**	(12.2)
Profit on ordinary activities after taxation		**36.1**	33.4
Equity minority interests		**(0.6)**	(0.6)
Profit attributable to members of the parent company		**35.5**	32.8
Dividends:			
– preference	8	**0.2**	(0.8)
– ordinary	8	**(8.0)**	(5.8)
Retained profit for the financial year		**27.7**	26.2
Earnings per share:	9		
Basic		**4.0p**	3.8p
– Profit on disposal of fixed asset investments		**–**	(0.2p)
– Amortisation of goodwill		**–**	–
Underlying basic earnings per share		**4.0p**	3.6p
Fully diluted		**3.7p**	3.4p

The underlying basic earnings excludes amortisation of goodwill of £0.5 million for the year ended 31 December 1998 and, for the year ended 31 December 1997, the exceptional profit of £2.1 million realised on the disposal of fixed asset investments (see note 3).

Financial statements
continued

Consolidated statement of total recognised gains and losses

for the year ended 31 December 1998

	1998 £'m	1997 £'m
Profit for the financial year	**35.5**	32.8
Currency translation differences on foreign currency net investments	**(0.7)**	1.3
Total recognised gains and losses relating to the year	**34.8**	34.1

Reconciliation of movements in shareholders' funds

for the year ended 31 December 1998

	Group		Company	
	1998 £'m	1997 £'m	1998 £'m	1997 £'m
Profit for the financial year	**35.5**	32.8	**19.7**	4.5
Preference dividends	**0.2**	(0.8)	**0.2**	(0.8)
Ordinary dividends	**(8.0)**	(5.8)	**(8.0)**	(5.8)
Retained profit for the financial year	**27.7**	26.2	**11.9**	(2.1)
Issue of shares by the Company	**17.4**	0.8	**17.4**	0.8
Goodwill written off in the year	**–**	(40.0)	**–**	–
Currency translation differences on foreign currency net investments	**(0.7)**	1.3	**–**	–
Net increase/(decrease) in shareholders' funds	**44.4**	(11.7)	**29.3**	(1.3)
Shareholders' funds at 1 January	**(107.5)**	(95.8)	**243.5**	244.8
Shareholders' funds at 31 December	**(63.1)**	(107.5)	**272.8**	243.5

Note of historical cost profits and losses

for the year ended 31 December 1998

There is no material difference between the reported results for 1998 and 1997 and the results for those years restated on an unmodified historical cost basis.

Financial statements
continued

Balance sheets
at 31 December 1998

	Notes	Group 1998 £'m	Group 1997 £'m	Company 1998 £'m	Company 1997 £'m
Fixed assets					
Intangible assets	1, 10	**17.0**	0.8	**–**	–
Tangible assets	11	**16.0**	13.5	**0.4**	0.5
Investments	12	**1.8**	1.3	**426.9**	404.5
		34.8	15.6	**427.3**	405.0
Current assets					
Debtors	13	**669.9**	578.0	**29.8**	26.1
Investments	14	**0.1**	0.8	**–**	–
Cash at bank and in hand		**114.0**	61.6	**36.3**	0.8
		784.0	640.4	**66.1**	26.9
Creditors: amounts falling due within one year	15	**(859.3)**	(733.7)	**(218.5)**	(185.9)
Net current liabilities		**(75.3)**	(93.3)	**(152.4)**	(159.0)
Total assets less net current liabilities		**(40.5)**	(77.7)	**274.9**	246.0
Creditors: amounts falling due after more than one year	16	**(21.1)**	(27.8)	**(2.1)**	(2.3)
Provisions for liabilities and charges	17	**–**	(0.2)	**–**	(0.2)
		(61.6)	(105.7)	**272.8**	243.5
Capital and reserves					
Issued, allotted, called up and fully paid share capital:	18				
– equity		**47.8**	41.7	**47.8**	41.7
– non-equity		**–**	3.2	**–**	3.2
		47.8	44.9	**47.8**	44.9
Share premium account:	19				
– equity		**59.0**	33.8	**59.0**	33.8
– non-equity		**–**	10.7	**–**	10.7
		59.0	44.5	**59.0**	44.5
Capital redemption reserve	19	**0.2**	0.2	**0.2**	0.2
Special reserve	19	**4.5**	21.9	**4.5**	21.9
Merger reserve	19	**–**	–	**13.0**	13.0
Profit and loss account	19	**(174.6)**	(219.0)	**148.3**	119.0
Shareholders' funds		**(63.1)**	(107.5)	**272.8**	243.5
Analysed as:					
– equity		**(63.1)**	(121.4)	**272.8**	229.6
– non-equity		**–**	13.9	**–**	13.9
		(63.1)	(107.5)	**272.8**	243.5
Equity minority interests		**1.5**	1.8	**–**	–
		(61.6)	(105.7)	**272.8**	243.5

Crispin Davis (Director)
Colin Day (Director)

22 March 1999

Financial statements
continued

Consolidated cash flow statement

for the year ended 31 December 1998

	1998 £'m	1997 £'m
Net cash flow from operating activities	**57.0**	54.5
Returns on investments and servicing of finance		
Interest received	**5.2**	4.3
Interest paid	**(4.3)**	(4.7)
Interest element of finance lease rental payments	**(0.1)**	(0.1)
Preference dividends paid	**–**	(0.8)
Dividends paid to minority interests	**(1.2)**	(0.5)
Net cash flow for returns on investments and servicing of finance	**(0.4)**	(1.8)
Taxation	**(13.7)**	(12.3)
Capital expenditure and financial investments		
Purchase of intangible fixed assets	**–**	(0.8)
Purchase of tangible fixed assets	**(8.2)**	(5.9)
Sale of tangible fixed assets	**0.3**	0.7
Purchase of investments	**(0.4)**	–
Sale of investments (a)	**0.9**	2.5
Net cash flow for capital expenditure and financial investments	**(7.4)**	(3.5)
Acquisitions and disposals		
Purchase of subsidiary undertakings and minority interests (note 20)	**(9.2)**	(13.2)
Cash acquired on purchase of subsidiary undertakings (note 20)	**4.6**	4.4
Investment in associated undertakings	**(0.4)**	–
Sale of associated undertaking	**0.4**	–
Deferred consideration on prior period acquisitions	**(6.2)**	(3.5)
Net cash flow for acquisitions and disposals	**(10.8)**	(12.3)
Equity dividends paid	**(6.6)**	(5.4)
Cash flow before use of liquid resources and financing	**18.1**	19.2
Management of liquid resources (b)		
Purchase of short term equity-indexed notes	**–**	(0.8)
Sale of short term money market investments	**1.0**	–
Net cash flow for management of liquid resources	**1.0**	(0.8)
Financing		
Issue of share capital	**17.4**	0.8
Repayment of secured loan	**(1.2)**	(8.4)
Capital element of finance lease rental payments	**(0.3)**	(0.3)
Net cash flow from financing	**15.9**	(7.9)
Increase in cash in the year	**35.0**	10.5

(a) Sale of investments in the year ended 31 December 1997 include £2.4 million realised on disposal of the Group's shareholding in Manning Gottlieb Media Limited (note 3).
(b) 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 opposite.

Notes to the consolidated cash flow statement

for the year ended 31 December 1998

	1998 £'m	1997 £'m
Reconciliation of operating profit to operating cash flow		
Operating profit	**50.1**	44.4
Amortisation of goodwill	**0.5**	–
Depreciation charges	**6.2**	5.0
Loss on disposal of tangible fixed assets	**0.1**	–
Profit on disposal of associated undertakings	**(0.2)**	–
Increase in debtors	**(93.9)**	(33.4)
Increase in creditors	**94.2**	38.5
Net cash flow from operating activities	**57.0**	54.5

Subsidiary undertakings acquired in the year contributed £2.4 million to the Group's net cash flow from operating activities.

	1998 £'m	1997 £'m
Reconciliation of net cash flow to movement in net debt		
Increase in cash in the year	**35.0**	10.5
Cash outflow from decrease in debt and lease financing	**1.5**	8.7
Change in net debt resulting from cash flows	**36.5**	19.2
Issue of preference shares by US subsidiary (note 21)	**–**	(10.6)
New finance lease obligations	**–**	(0.3)
Effect of foreign exchange rate changes	**2.6**	(2.9)
Movement in net debt in the year	**39.1**	5.4
Net debt at 1 January	**(2.2)**	(7.6)
Net funds/(debt) at 31 December	**36.9**	(2.2)

	1 January 1998 £'m	Cash flow £'m	Other non-cash changes £'m	Exchange movement £'m	31 December 1998 £'m
Analysis of net funds/(debt)					
Cash in hand and at bank	61.6	49.1	–	3.3	**114.0**
Overdrafts	(44.6)	(14.1)	–	(0.6)	**(59.3)**
	17.0	35.0	–	2.7	**54.7**
Debt due within one year	(10.6)	–	–	0.1	**(10.5)**
Debt due after more than one year	(7.9)	1.2	–	(0.2)	**(6.9)**
Net funds/(debt) before finance lease obligations	(1.5)	36.2	–	2.6	**37.3**
Finance lease obligations	(0.7)	0.3	–	–	**(0.4)**
Total	(2.2)	36.5	–	2.6	**36.9**

There were no loans within subsidiaries acquired in the year.

1. Principal accounting policies

Notes forming part of the financial statements
for the year ended 31 December 1998

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 1998. 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 1998.

Goodwill

Prior to 1 January 1998, it was the Group's policy to write off purchased goodwill immediately to reserves and charge it to the profit and loss account only on the subsequent disposal of the business to which it related. For acquisitions prior to 1 January 1998, the Group has elected to continue with this accounting policy.

In accordance with FRS10, goodwill arising on each acquisition on or after 1 January 1998 is capitalised as an asset in the balance sheet. The directors review the estimated useful economic life of goodwill arising on each acquisition and, where this is considered finite, the goodwill is amortised over this period on a straight line basis. Following the first full year of ownership of an acquired business, the goodwill capitalised is reviewed for impairment. The carrying value of goodwill may also be reviewed at any time if there is a new event or change in circumstance which may impact upon its recoverable amount.

Foreign currencies

Profit and loss accounts and cash flows in foreign currencies are translated into sterling at average exchange 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

Turnover represents the value of media handled by the Group on behalf of clients (excluding VAT). 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.

Fixed assets and depreciation

Tangible fixed assets are stated at historical 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

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 a participating interest and over whose operating and financial policies it exercises a significant influence are treated as associated undertakings. Investments in associated undertakings are included in the consolidated balance sheet at cost less any goodwill arising before 1 January 1998, 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.

2. Net liabilities and operating performance

Notes forming part of the financial statements

for the year ended 31 December 1998

continued

	Net liabilities 1998 £'m	Net liabilities 1997 £'m	Profit/(loss) on ordinary activities before taxation 1998 £'m	Profit/(loss) on ordinary activities before taxation 1997 £'m	Turnover 1998 £'m	Turnover 1997 £'m
Geographical analysis						
Europe	**(26.3)**	(67.5)	**48.3**	43.1	**3,568.8**	3,311.2
North America and Asia Pacific	**(35.3)**	(38.2)	**2.3**	0.8	**561.2**	341.3
	(61.6)	(105.7)	**50.6**	43.9	**4,130.0**	3,652.5
Income from interests in associated undertakings			**–**	0.5		
Profit on disposal of fixed asset investments			**–**	2.1		
Net interest receivable/(payable)			**0.5**	(0.9)		
Amortisation of goodwill			**(0.5)**	–		
Profit on ordinary activities before taxation			**50.6**	45.6		

The Group operates in only one business sector: media communications. The Group's share of the net assets of associated undertakings of £0.6 million (1997: £0.4 million) are located in Europe. There is no material difference between turnover determined by origin and that determined by destination.

A further analysis of turnover in Europe is set out below:

	1998 Local'm	1997 Local'm	1998 £'m	1997 £'m
France	**9,774.1**	8,765.8	**1,001.2**	919.9
Germany	**2,432.1**	2,252.5	**835.1**	795.5
UK	**667.9**	630.1	**667.9**	630.1
Scandinavia	**4,868.9**	4,280.9	**368.3**	342.3
Spain	**77,978.4**	72,077.8	**315.2**	301.0
Italy	**483,093.0**	322,543.0	**167.8**	115.7
Rest of Europe	**n/a**	n/a	**213.3**	206.7
	n/a	n/a	**3,568.8**	3,311.2

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, during the year ended 31 December 1997. 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
for the year ended 31 December 1998
continued

4. Interest payable and similar charges

	1998 £'m	1997 £'m
Interest payable:		
On bank loans and overdrafts repayable	**2.4**	2.9
Other loans repayable	**0.7**	0.6
Interest payable under finance lease and hire purchase contracts	**0.1**	0.1
Other charges	**1.2**	1.3
	4.4	4.9
Amortisation of refinancing costs	**0.3**	0.3
	4.7	5.2

The cost of the existing banking facilities of £1.0 million was capitalised in 1996 and is being be written off over three years, representing the minimum period of those arrangements.

5. Staff costs

	1998 £'m	1997 £'m
Staff costs consist of:		
Wages and salaries	**90.9**	76.2
Social security costs	**16.1**	15.0
Other pension costs	**1.9**	1.6
	108.9	92.8

The average number of full-time employees of the Group during the year, all of whom were employed in the field of media communications, was 2,838 (1997: 2,266). At 31 December 1998, there were 2,869 employees (1997: 2,510). The average number of full-time employees in the UK during the year was 491 (1997: 483).

Directors' remuneration is disclosed in the Remuneration report on page 29. The total amount of directors' remuneration in 1998 was £3.3 million (1997: £3.3 million).

6. Profit on ordinary activities before taxation

	1998 £'m	1997 £'m
This is stated after charging:		
Auditors' remuneration and expenses – audit services – UK*	**0.2**	0.1
– audit services – overseas	**0.3**	0.4
	0.5	0.5
Auditors' remuneration and expenses – non-audit services – UK	**–**	–
– non-audit services – overseas	**0.1**	0.1
	0.1	0.1
Depreciation of fixed assets	**6.2**	5.0
Operating lease rentals on other assets	**8.3**	7.4
Research and development costs	**19.5**	14.8
Loss on disposal of tangible fixed assets	**0.1**	–
Profit on disposal of associated undertakings	**0.2**	–
Profit on sale of fixed asset investments	**–**	2.1

*Auditors' remuneration and expenses payable by the Company were £0.1 million (1997: £0.1 million).

All operating expenses are administration expenses.

7. Tax on profit on ordinary activities

Notes forming part of the financial statements
for the year ended 31 December 1998
continued

	1998 £'m	1997 £'m
UK corporation tax	–	–
Overseas taxation	**14.4**	12.1
Associated undertakings	**0.1**	0.1
	14.5	12.2

The effective rate of tax on the Group's underlying profits is 28.4% based on profits before amortisation of goodwill (1997: 28%). As disclosed in note 3 above, there was no tax arising in 1997 on the profit on disposal of the Group's 19.9% shareholding in Manning Gottlieb Media Limited.

8. Dividends

	1998 £'m	1997 £'m
Non-equity: Preference		
Variable rate convertible cumulative redeemable preference shares 2003 of 5p each		
– conventional dividend paid (31 December 1997: 0.68p)	–	0.4
– foreign income dividend paid (31 December 1997: 0.3p)	–	0.2
– foreign income dividend lost at 0.4p per share (31 December 1997: 0.4p)*	**(0.2)**	0.2
	(0.2)	0.8
Equity: Ordinary		
Ordinary shares of 5p each		
– interim dividend rate per share paid as a foreign income dividend	**0.35p**	0.3p
– final dividend rate per share proposed	**0.5p**	0.4p
	0.85p	0.7p

	£'m	£'m
Ordinary shares of 5p each		
– interim dividend paid as a foreign income dividend	**3.2**	2.5
– final dividend proposed	**4.8**	3.3
	8.0	5.8

*During the year, the Company's preference shares were converted into ordinary shares thereby losing their right to the 1997 final dividend of 0.4p per share but ranking for all ordinary dividends thereafter. As a result of the conversion, the Company's 1997 final dividend of 0.4p per share was deemed to be a foreign income dividend.

Under the Finance Act 1994, Aegis Group plc elected to treat its interim dividend for 1998 as a Foreign Income Dividend ("FID"). With effect from 6 April 1999, the Government has abolished FIDs and Advance Corporation Tax.

The final dividend, if approved, will be paid as a conventional dividend on 1 July 1999 to all ordinary shareholders on the register on 11 June 1999.

Notes forming part of the financial statements
for the year ended 31 December 1998
continued

9. Earnings per ordinary share

	As reported 1998	Underlying 1998	As restated 1997	Underlying 1997
Earnings per ordinary share is calculated as follows:				
Basic				
Profit for the period	**£35.7m**	£36.2m	£32.0m	£29.9m
Weighted average number of ordinary shares in issue	**898.4m**	898.4m	831.2m	831.2m
Basic earnings per share	**4.0p**	4.0p	3.8p	3.6p
Fully diluted				
Profit for the period	**£35.5m**	£36.0m	£32.8m	£30.7m
Weighted average number of ordinary shares in issue and the weighted average number of dilutive securities	**971.3m**	971.3m	950.8m	950.8m
Fully diluted earnings per share	**3.7p**	3.7p	3.4p	3.2p

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. The fully diluted earnings per share for 1997 has been restated to comply with Financial Reporting Standard 14 which was issued in 1998.

At 31 December 1998, there were 955.1 million ordinary shares in issue (1997: 833.3 million), no convertible preference shares (1997: 63.8 million), no warrants outstanding (1997: 48.0 million) and 94.2 million options outstanding (1997: 57.6 million). The total proceeds that would be received on exercise of the outstanding options at 31 December 1998 is £63.7 million. The table below sets out the effect of the dilutive securities on fully diluted earnings per share calculation:

	No. of ordinary shares 1998	No. of ordinary shares 1997
Convertible preference shares	**15.6m**	63.8m
Warrants	**22.6m**	25.5m
Options	**34.7m**	30.3m
Total weighted average number of dilutive securities	**72.9m**	119.6m

Underlying profits are calculated by adding back amortisation of goodwill of £0.5 million in 1998 and the profit on disposal of fixed asset investments of £2.1 million (note 3) in 1997, in order to eliminate the effect of these distorting items.

10. Intangible fixed assets

	Goodwill £'m	Development Costs £'m	Total £'m
Group:			
Cost at 1 January 1998	–	0.8	0.8
Additions (note 20)	17.5	–	17.5
In subsidiaries disposed	–	(0.8)	(0.8)
At 31 December 1998	**17.5**	–	**17.5**
Amortisation at 1 January 1998	–	–	–
Provided for in the year	0.5	–	0.5
At 31 December 1998	**0.5**	–	**0.5**
Net book value			
At 31 December 1998	**17.0**	–	**17.0**
At 31 December 1997	–	0.8	0.8

Development costs related to the costs incurred in the initial compilation of the mailing lists and databases held by Consodata España SA. These costs were capitalised and amortised over their useful economic life of three years on a straight line basis. Consodata España SA was sold at no profit to Consodata France SA during the year.

Notes forming part of the financial statements
for the year ended 31 December 1998
continued

11. Tangible fixed assets

	Freehold land & buildings £'m	Leasehold improvements £'m	Office furniture, fixtures, equipment & vehicles £'m	Total £'m
Group:				
Cost at 1 January 1998	3.9	6.1	24.1	34.1
Additions	–	1.9	6.3	8.2
In subsidiaries acquired	–	0.1	0.8	0.9
Disposals	(0.3)	–	(5.1)	(5.4)
Exchange adjustments	0.2	0.1	0.7	1.0
At 31 December 1998	**3.8**	**8.2**	**26.8**	**38.8**
Depreciation at 1 January 1998	0.8	4.9	14.9	20.6
Provided for in the year	0.2	0.4	5.6	6.2
In subsidiaries acquired	–	–	0.3	0.3
Disposals	(0.1)	–	(4.9)	(5.0)
Exchange adjustments	0.1	–	0.6	0.7
At 31 December 1998	**1.0**	**5.3**	**16.5**	**22.8**
Net book value				
At 31 December 1998	**2.8**	**2.9**	**10.3**	**16.0**
At 31 December 1997	3.1	1.2	9.2	13.5
Company:				
Cost at 1 January 1998	–	0.1	0.7	0.8
Additions	–	–	0.1	0.1
At 31 December 1998	**–**	**0.1**	**0.8**	**0.9**
Depreciation at 1 January 1998	–	–	0.3	0.3
Provided for in the year	–	–	0.2	0.2
At 31 December 1998	**–**	**–**	**0.5**	**0.5**
Net book value				
At 31 December 1998	**–**	**0.1**	**0.3**	**0.4**
At 31 December 1997	–	0.1	0.4	0.5

The cost of the Group's tangible fixed assets includes £0.9 million (1997: £1.3 million) and the net book value includes £0.3 million (1997: £0.6 million) in respect of assets held under finance leases. Depreciation on these assets in the year was £0.2 million (1997: £0.2 million).

The net book value of the Company's tangible fixed assets includes no amount (1997: £nil) in respect of assets held under finance leases.

The Group has no capital commitments, contracted for but not provided (1997: £1.2 million). The Company has no capital commitments contracted for but not provided (1997: £nil).

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 1998	0.4	0.3	0.6	1.3
Additions	0.4	0.4	–	0.8
Disposals	(0.2)	–	(0.2)	(0.4)
Revaluation	–	–	0.1	0.1
Net book value at 31 December 1998	**0.6**	**0.7**	**0.5**	**1.8**
Company:				
Net book value at 1 January 1998	–	404.2	0.3	404.5
Additions	–	22.6	–	22.6
Disposals	–	–	(0.2)	(0.2)
Net book value at 31 December 1998	**–**	**426.8**	**0.1**	**426.9**

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 1998 of £14,180 (1997: £12,977).

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 £436.3 million before provisions for diminution in value.

Own shares

The nominal value of own shares held at 31 December 1998 was £nil (1997: £0.1 million). Options over some of 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		Company	
	1998 £'m	1997 £'m	**1998 £'m**	1997 £'m
Trade debtors	**616.8**	515.9	–	–
Amounts due from Group undertakings	–	–	**25.1**	21.1
Amounts due from associated undertakings	**7.1**	3.5	–	–
Other debtors	**35.3**	26.9	**4.4**	4.8
Prepayments and accrued income	**10.7**	31.7	**0.3**	0.2
	669.9	578.0	**29.8**	26.1

Notes forming part of the financial statements
for the year ended 31 December 1998
continued

14. Current asset investments

	Group 1998 £'m	Group 1997 £'m	Company 1998 £'m	Company 1997 £'m
Other investments	**0.1**	0.8	**–**	–

Current asset investments comprise unlisted investments.

15. Creditors: amounts falling due within one year

	Group 1998 £'m	Group 1997 £'m	Company 1998 £'m	Company 1997 £'m
Bank loans and overdrafts	**69.8**	55.2	**109.0**	79.1
Less issue costs of debt to be amortised	**(0.2)**	(0.3)	**(0.2)**	(0.3)
	69.6	54.9	**108.8**	78.8
Trade creditors	**679.4**	589.6	**–**	–
Finance leases and hire purchase contracts	**0.2**	0.3	**–**	–
Amounts due to Group undertakings	**–**	–	**99.4**	96.7
Amounts due to associated undertakings	**–**	0.2	**–**	–
Taxation and social security	**16.8**	13.2	**0.1**	0.1
Corporation tax	**9.5**	7.7	**–**	–
Dividends payable	**4.8**	3.5	**4.8**	3.5
Other creditors	**45.4**	40.7	**2.7**	4.2
Accruals and deferred income	**33.6**	23.6	**2.7**	2.6
	859.3	733.7	**218.5**	185.9

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

	Group 1998 £'m	Group 1997 £'m	Company 1998 £'m	Company 1997 £'m
Bank loans	**6.9**	7.9	**–**	–
Less issue costs of debt to be amortised	**–**	(0.2)	**–**	(0.2)
	6.9	7.7	**–**	(0.2)
Finance leases and hire purchase contracts	**0.2**	0.4	**–**	–
Other creditors	**14.0**	19.7	**2.1**	2.5
	21.1	27.8	**2.1**	2.3

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. On 1 September 1998, the Group cancelled the media guarantee facility of £70 million, and replaced it with an Insurance Bond of £60 million. During the year, the Group repaid £1.2 million of the term loan. Interest is payable on the term loan and the revolving credit facility at LIBOR plus a maximum of 1.125%. The remaining facilities are secured by fixed and floating charges over the shares of certain subsidiary undertakings.

£6.9 million (1997: £7.9 million) is repayable between two and five years. No amount (1997: £nil) is repayable after more than five years. There is no amount in other creditors (1997: £nil) repayable in instalments more than five years from the date of the balance sheet.

17. Provisions for liabilities and charges

Group and Company:

Notes forming part of the financial statements
for the year ended 31 December 1998
continued

During the period, provisions of £0.2 million relating to surplus UK property 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 1998 or 31 December 1997.

18. Share capital

	1998 Equity £'m	1998 Non-equity £'m	1998 Total £'m	1997 Equity £'m	1997 Non-equity £'m	1997 Total £'m
Authorised:						
1,200,000,000 (1997: 1,200,000,000) ordinary shares of 5p each	**60.0**	–	**60.0**	60.0	–	60.0
Nil (1997: 68,181,820) variable rate convertible cumulative redeemable preference shares 2003 of 5p each	–	–	–	–	3.4	3.4
	60.0	–	**60.0**	60.0	3.4	63.4
Issued, allotted, called up and fully paid:						
955,140,221 (1997: 833,304,722) ordinary shares of 5p each	**47.8**	–	**47.8**	41.7	–	41.7
Nil (1997: 63,753,338) variable rate convertible cumulative redeemable preference shares 2003 of 5p each	–	–	–	–	3.2	3.2
	47.8	–	**47.8**	41.7	3.2	44.9

Ordinary shares

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

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

Reason for issue	No. of ordinary shares issued	Nominal value of ordinary shares issued	Consideration
Conversion of preference shares	63,753,338	£3,187,667	–
Subscription of warrants	47,995,000	£2,399,750	£14,398,500
Exercise of share options	10,087,161	£504,358	£3,026,566
Total	**121,835,499**	**£6,091,775**	**£17,425,066**

The Company received £17.4 million as consideration on exercise of share options and subscription of warrants. There are no preference shares or warrants outstanding at 31 December 1998.

Under the executive share option schemes there were outstanding at 31 December 1998, options over 94,220,289 ordinary shares of 5p each for which the participants have the right to exercise their options at prices ranging from 25.5p to 165.80p. These options are exercisable between 1 January 1997 and 1 June 2008.

19. Reserves

Notes forming part of the financial statements
for the year ended 31 December 1998
continued

	Share premium account (equity) £'m	Share premium account (non-equity) £'m	Capital redemption reserve £'m	Special reserve £'m	Profit and loss account £'m
Group:					
At 1 January 1998	33.8	10.7	0.2	21.9	(219.0)
Retained profit for the financial year	–	–	–	–	27.7
Issue of shares by the Company	14.5	–	–	–	–
Conversion of preference shares	10.7	(10.7)	–	–	–
Transfers	–	–	–	(17.4)	17.4
Currency translation differences on foreign currency net investments	–	–	–	–	(0.7)
At 31 December 1998	**59.0**	**–**	**0.2**	**4.5**	**(174.6)**

Goodwill arising on acquisitions up to 31 December 1997 of £565.2 million, which has been written off immediately to reserves, is included within the profit and loss reserve account.

	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 1998	33.8	10.7	0.2	21.9	13.0	119.0
Retained profit for the financial year	–	–	–	–	–	11.9
Issue of shares by the Company	14.5	–	–	–	–	–
Conversion of preference shares	10.7	(10.7)	–	–	–	–
Transfers	–	–	–	(17.4)	–	17.4
At 31 December 1998	**59.0**	**–**	**0.2**	**4.5**	**13.0**	**148.3**

Following the issue of shares during the year a further £17.4 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 1998 was £19.7 million (12 months to 31 December 1997: £4.5 million). Accumulated reserves for the Company include £111.3 million (1997: £111.3 million) which is not available for distribution under the terms of the court approved share premium account reduction scheme.

20. Acquisitions

Notes forming part of the financial statements

for the year ended 31 December 1998

continued

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

	Book value acquired £'m	Accounting policy alignment £'m	Other adjustments £'m	Fair value of net assets £'m
Net assets/(liabilities) acquired:				
Tangible fixed assets	0.7	(0.1)[a]	–	0.6
Debtors	5.4	(0.2)[b]	(0.1)[d]	5.1
Cash at bank and in hand	4.6	–	–	4.6
Creditors	(9.9)	(0.1)[c]	(0.2)[e]	(10.2)
Minority interest extinguished	0.7	–	–	0.7
	1.5	(0.4)	(0.3)	0.8
Goodwill capitilised in the year				17.5
				18.3

	£'m
Satisfied by:	
Cash consideration	8.7
Direct costs of acquisition	0.5
Deferred consideration (note 21)	9.1
	18.3

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, general bad debt provisions have been established consistent with the Group's accounting policy for that market.
(c) Adjustments have been made to change the basis of accounting from cash to accruals.

Other adjustments have been made for pre-acquisition items, not reflected in the acquisition balance sheet, as set out below:
(d) Provisions against specific bad debts of £0.1 million have been made against irrecoverable balances in Freeman Associates.
(e) In Freeman Associates and the Strategem Group, provisions have been made for redundancy costs of £0.1 million each.

Goodwill arising 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 1998
Bray	Australia	100%	100%
Freeman Associates Inc	USA	100%	100%
Halmarick	Australia	100%	100%
Strategem Group	Canada	100%	100%
David Cairns and Company Media Management Ltd	Canada	100%	100%
Saverne Conseil SA	France	100%	100%
Carat Media Services (Thailand) Co Ltd	Thailand	49%	49%
MW Office GmbH	Germany	24%	75%
Micom Carat SA	Switzerland	20%	100%
Micom Carat AG	Switzerland	40%	100%
Carat Turkey	Turkey	30%	100%

20. Acquisitions continued

Notes forming part of the financial statements
for the year ended 31 December 1998
continued

Further details on the aquisitions in the year are set out below:

Bray

With effect from 1 January 1998, the Group acquired the business of Bray Limited in Sydney, Australia (now renamed "Carat Australia Media Services"). The initial cash consideration was £0.8 million (A$2.1 million). Further contingent consideration payable in cash of up to £0.9 million (A$2.4 million) may also be paid between 2000 and 2001 subject to specified growth criteria.

Freeman Associates Inc

With effect from 1 January 1998, the Group acquired a 100% interest in Freeman Associates Inc based near Boston, USA (now renamed "Carat Freeman"). The initial cash consideration was £3.3 million (US$5.3 million). Further contingent consideration payable in cash of up to £4.5 million (US$7.5 million) may also be paid between 1999 and 2001 subject to specified growth criteria.

Halmarick

With effect from 1 January 1998, the Group acquired the business of Halmarick Limited in Sydney, Australia (now renamed "Carat Australia Media Services"). The initial cash consideration was £1.5m (A$4.0 million). Further contingent consideration payable in cash of up to £1.1 million (A$3.0 million) may also be paid between 1999 and 2001 subject to specified growth criteria.

Strategem Group

With effect from 1 January 1998, the Group acquired 49% of the voting rights and 100% of the equity shares in the Strategem Group in Montreal, Canada (now renamed "Groupe Carat Strategem"). The Group is entitled, inter alia, to 100% of the dividends arising from Groupe Carat Strategem and these entities are consolidated on that basis. The initial cash consideration was £0.7 million (CAN$1.8 million). Further contingent consideration payable in cash of up to £1.3 million (CAN$3.0 million) may also be paid between 1999 and 2001 subject to specified growth criteria.

David Cairns and Company Media Management Limited

On 22 December 1998, the Group acquired 49% of the voting rights and 100% of the equity shares in David Cairns and Company Media Management Limited (now renamed "Carat Cairns") in Toronto, Canada. The Group is entitled, inter alia, to 100% of the dividends arising from Carat Cairns and has been consolidated on that basis. The initial cash consideration was £0.4 million (CAN$1.0 million). Further contingent consideration payable in cash of up to £0.9 million (CAN$2.3 million) may also be paid between 1999 and 2001 subject to specified growth criteria.

Saverne Conseil SA

With effect from 1 July 1998, the Group acquired a 100% interest in the Saverne Conseil SA in Paris, France. The initial cash consideration was £0.1 million (FFr1.6 million) paid in cash. Further fixed consideration of £0.1 million is payable in 1999 in cash and contingent consideration payable in cash of up to £0.3 million (FFr3.4 million) may also be paid between 1999 and 2001 subject to specified growth criteria.

Carat Media Services (Thailand) Co Limited

On 6 August 1998, the Group acquired the media business of Chuo Senko Thailand Company Limited for £1.0 million (Baht 70 million) paid in cash. The Group has established a joint venture company with Chuo Senko called Carat Media Services (Thailand) Company Limited in which the Group has voting rights of 51% and equity stake of 49%. Aegis has the right to appoint four out of the seven directors.

MW Office GmbH

On 31 December 1998, the Group acquired a further 24% interest in MW Office GmbH for £0.6 million (DM1.9 million) paid in cash.

Micom Carat SA and Micom Carat AG

On 24 August 1998, the Group acquired the remaining 20% interest in Micom Carat SA in Lausanne for £0.1 million (CHF0.2 million) in cash and the remaining 40% interest in Micom Carat AG in Zurich for £0.1 million (CHF0.2 million) in cash.

Carat Turkey

On 14 December 1998, the Group acquired the remaining 30% interest in Carat Turkey for £0.1 million (DM0.2 million).

21. Contingent liabilities and other commitments

Notes forming part of the financial statements

for the year ended 31 December 1998

continued

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 1998 for payments that may be due is as follows:

	1998 £'m	1997 £'m
Within one year	**12.1**	5.6
Between one and two years	**7.4**	6.5
Between two and five years	**4.3**	9.4
	23.8	21.5

All of the contingent deferred payments noted above are payable in cash. The minimum liability is £9.4 million.

In addition to the deferred payments disclosed above, in 1997, as partial consideration for the acquisition of a 100% interest in International Communications Group, a wholly-owned, US subsidiary holding company of Aegis Group plc issued preference shares to the vendors of the International Communications Group. 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 and amounted to £10.5 million (US$17.4 million) at 31 December 1998.

Put options held by outstanding minority interests

Put options are held by minority interests in respect of Carat companies in Germany, Greece, Thailand and the United Kingdom, exercisable between 1998 and 2002. 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 £6.1 million, payable in a combination of cash and ordinary shares.

Guarantees

Guarantees of £17.0 million (1997: £13.9 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 1998, 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	3.3	0.6	–
Between one and five years	3.8	1.1	0.3
After more than five years	2.3	0.7	1.4
31 December 1998	**9.4**	**2.4**	**1.7**
31 December 1997	7.8	1.3	1.7

22. Related parties

Notes forming part of the financial statements
for the year ended 31 December 1998
continued

In addition to the disclosures set out in the Report of the directors' and note 20 of these accounts, the Group had the following related party transactions in 1998:

Related party transactions with associated undertakings

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

Carat España SA purchased media space on behalf of Mediasal 2000 SA, an associated undertaking, totalling £15,312,868 in 1998. The balance due at the year end was £5,027,139 (1997: £3,053,548).

Carat Hellas SA provided planning and media buying services to JV Bonds, an associated undertaking, for a fee of £139,749 in 1998. The balance due at year end was £59,352 (1997: £nil).

Carat France SA provided administration services to Consodata SA, an associated undertaking, for a fee of £51,217 in 1998. The balance due at the year end was £24,209 (1997: £36,571). Carat France also provided a loan to Consodata SA of £1,491,285 (1997: £202,051).

Carat España SA was paid an outstanding balance due from Consodata España SA of £3,031 for costs incurred on its behalf; there was no balance outstanding at the year end (1997: £3,031).

Consodata Europe Limited provided management and other services to Consodata UK Limited of £400,000 and to Consodata España SA of £60,000. The balance due at the year end was £470,000 (1997: £nil) from Consodata UK Limited and £60,000 (1997: £nil) from Consodata España SA. In addition, Consodata Europe Limited settled its outstanding balance with Consodata SA of £234,985.

23. Financial instruments

Treasury management and financial instruments

The Group's Treasury department is responsible for managing the Group's financing and treasury risks. The Board of directors sets formal parameters and guidelines on the use of financial instruments to manage risk and reviews these regularly. The Group does not trade in financial instruments nor engage in speculative arrangements and it is the Group's policy not to use any complex financial instruments, unless, in exceptional circumstances, it is necessary to cover defined risks.

Management of financial risk

The Group considers its major financial risks to be credit risk, liquidity, interest rate risk and currency risk. The Group's policies with regard to these risks and how financial instruments are used to manage these risks are set out below:

Credit risk

The Group's exposure with banks and other institutions is limited by the use of dealing limits set by reference to ratings provided by the major credit rating agencies.

Liquidity

It is the Group's policy that funding required by an overseas operation should be provided locally where appropriate and that these should be adequate to cover the needs of the business. A further analysis of local and Group facilities is set out below.

At 31 December 1998, the Group had net funds (before finance lease obligations) of £37.3 million (1997: Net debt of £1.5 million). The Group had cash balances of £114.0 million at 31 December 1998 (1997: £61.6 million) which were held mainly in the Group's trading companies and gross borrowings of £76.7 million (1997: £63.1 million).

Interest rate risk

The Group's policy is not to enter into any long-term arrangement that fixes or caps any portion of debt. All borrowings are floating rate.The Group's cash and borrowings currently offset each other and any arrangement to fix the interest rate would result in the Group having a potential exposure.

Currency risk

The Group's foreign currency management policy requires subsidiaries to use short-term forward exchange contracts to hedge all transactions with material currency exposures. The Group's accounting policy is to translate the profits of overseas investments at the average exchange rate for the year and to translate the net assets at year end rates. It is the Group's policy not to hedge exposures arising from profit translation.

23. Financial instruments continued

Currency risk continued

Notes forming part of the financial statements
for the year ended 31 December 1998
continued

The Group's policy is to borrow locally wherever possible to act as a hedge against the translation risk arising from its net investments overseas. Gains and losses arising on net investments overseas are recognised in the statement of total recognised gains and losses.

Short term debtors and creditors

Short-term debtors and creditors have been excluded from all disclosures, other than the currency risk disclosures.

Analysis of interest rate risk profile of financial liabilities of the Group

The currency and interest rate risk profile of the financial liabilities of the Group at 31 December, all of which were at floating interest rates, was:

	Floating rate financial liabilities 1998 £'m	Floating rate financial liabilities 1997 £'m
Sterling	**48.4**	33.6
Deutschemark	**6.5**	6.1
French Franc	**2.6**	3.6
Spanish Peseta	**5.3**	7.6
Other EU currencies	**0.2**	–
US Dollar	**12.7**	12.0
Other currencies	**1.0**	0.2
	76.7	63.1

Interest is payable on the above financial liabilities based on the relevant national LIBOR plus a maximum of 1.125%. The weighted average interest rate for the year ended 31 December 1998 was 6.2% (1997: 5.9%).

There were no fixed rate financial liabilities at 31 December 1998 (1997: £nil). In addition to the liabilities above, the Group had creditors due after more than one year of £14.0 million (1997: £19.7 million) on which no interest is paid (principally representing deferred consideration on acquisitions) and finance lease obligations of £0.4 million (1997: £0.7 million) which are mostly held in Sterling.

Analysis of interest rate risk profile of financial assets of the Group

The currency and interest rate risk profile of the financial assets of the Group at 31 December, all of which were at floating interest rates, was:

	Cash at bank and in hand 1998 £'m	**Current asset investments 1998 £'m**	**Total 1998 £'m**	Cash at bank and in hand 1997 £'m	Current asset investments 1997 £'m	Total 1997 £'m
Sterling	**24.7**	**–**	**24.7**	2.9	–	2.9
Deutschemark	**24.3**	**–**	**24.3**	24.9	–	24.9
French Franc	**8.0**	**–**	**8.0**	4.2	–	4.2
Spanish Peseta	**6.2**	**–**	**6.2**	0.1	–	0.1
Other EU currencies	**28.7**	**–**	**28.7**	23.5	–	23.5
US Dollar	**13.4**	**–**	**13.4**	3.3	–	3.3
Other currencies	**8.7**	**0.1**	**8.8**	2.7	0.8	3.5
	114.0	**0.1**	**114.1**	61.6	0.8	62.4

Current asset investments comprise short-term money market investments. Floating rate cash earns interest based on the relevant national LIBID equivalent. In addition to the financial assets above, the Group had other fixed asset investments of £0.7 million, £0.4m in Deutschemarks and £0.3 million in French Francs (1997: £0.3 million, all in French Francs), which do not yield an interest-related income and which do not have a fixed maturity date.

Fair values of the Group's financial assets and liabilities

The fair value of the Group's floating rate financial liabilities, as calculated by discounting the book value of current obligations as at 31 December 1998, was £72.3 million (1997: £62.5 million). The floating rate financial liabilities have been discounted using the Group's weighted average cost of debt. There are no material differences between the book and fair values of the Group's financial assets and other financial liabilities.

Maturity of financial liabilities

The maturity profile of the Group's financial liabilities is set out in notes 15, 16 and 21.

Borrowing facilities

The Group had the following undrawn, committed borrowing facilities available at 31 December in respect of which all conditions precedent had been met at that date:

	1998 £'m	1997 £'m
Expiring within one year	**49.0**	–
Expiring between one and two years	**16.0**	70.0
Expiring between two and five years	–	–
	65.0	70.0

Of the amounts disclosed above at 31 December 1998 £49.0 million may be extended by the Group for up to a further two years. All covenants at 31 December 1998 were met.

Market risk

At 31 December 1998, on the basis of existing net cash balances, it is estimated that a general movement of 1% in interest rates would impact 1998 profit before tax by £0.1m.

It is also estimated that a general movement of Sterling by 1% would impact 1998 profit before tax by approximately £0.4 million.

Currency exposures

No Group companies have material monetary assets and liabilities in currencies other than that of the local functional currency.

Hedges of future transactions

At 31 December 1998 and 1997, there were no material foreign exchange contracts to hedge against future transaction flows.

Financial instruments held for trading purposes

The Group does not trade in financial instruments.

24. Post balance sheet events

On 18 January 1999, the Group disposed of its 46.82% interest in the Consodata Group based in France for £6.5 million (FFr60.8 million) to the existing management and to the Alpha investment Group. As part of this disposal, Carat France will make a loan to Consodata of £3.3 million (FFr31.7 million) half of which is repayable on 31 December 1999 and the remainder of which is repayable on 31 December 2000. In the event that Consodata floats before either date, any outstanding loan amount becomes immediately repayable. The Group will realise a profit on disposal of approximately £1.5 million in 1999 after providing for this loan (the remaining profit relating to the loan will be recognised when the cash is received).

25. Principal subsidiary and associated undertakings

Notes forming part of the financial statements

for the year ended 31 December 1998

continued

Principal subsidiary undertakings:	Office	Country of incorporation and operation	Effective interest in issued ordinary share capital at 31 December 1998
Carat Australia Media Services	Sydney	Australia	100%
Carat Bray	Sydney	Australia	100%
Carat Halmarick	Sydney	Australia	100%
HMS Carat	Vienna	Austria	100%
Carat Crystal	Brussels	Belgium	100%
Carat Canada	Montreal	Canada	100%
Groupe Carat Strategem	Montreal	Canada	100% (49% voting)
K2 Media	Montreal	Canada	100% (49% voting)
Carat Cairns	Toronto	Canada	100% (49% voting)
HMS Carat	Prague	Czech Republic	100%
Carat Danmark	Copenhagen	Denmark	100%
Carat Media Research	Copenhagen	Denmark	100%
Carat Group UK	London	England and Wales	100%
Carat	London	England and Wales	100%
Carat Direct	London	England and Wales	100%
Carat Manchester	Manchester	England and Wales	100%
Carat Direct Manchester	Manchester	England and Wales	100%
BBJ Media Services	London	England and Wales	75%
Carat Business	London	England and Wales	100%
Posterscope	London	England and Wales	100%
Posterscope in the North	Manchester	England and Wales	100%
Carat Insight	London	England and Wales	100%
Carat Interactive	London	England and Wales	100%
Carat International	London	England and Wales	100%
Carat Media Services	London	England and Wales	100%
Consodata Europe	London	England and Wales	100%
Carat Finland	Helsinki	Finland	100%
Oy Inter Media	Helsinki	Finland	100%
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 Carat	Paris	France	100%
IPC	Paris	France	100%
Saverne Conseil	Paris	France	100%
Grap & Gides	Lille	France	100%
Carat Media Service	Wiesbaden	Germany	100%
HMS Media Service	Wiesbaden	Germany	100%
HMS and Carat Central Services	Wiesbaden	Germany	100%
Carat Visions	Wiesbaden	Germany	100%

25. Principal subsidiary and associated undertakings continued

Notes forming part of the financial statements
for the year ended 31 December 1998
continued

Principal subsidiary undertakings:	Office	Country of incorporation and operation	Effective interest in issued ordinary share capital at 31 December 1998
Carat Expert	Wiesbaden	Germany	100%
Carat Hamburg Media Service	Hamburg	Germany	100%
Panmedia	Eschborn	Germany	100%
MW Office	Munich	Germany	75%
PAP	Hamburg	Germany	51%
Carat Hellas	Athens	Greece	75.5%
Carat Creative	Athens	Greece	75.5%
HMS Carat	Budapest	Hungary	100%
Carat Italia	Milan, Turin, Florence, Rome	Italy	100%
Carat Expert	Milan	Italy	100%
Carat Visions	Milan	Italy	100%
Carat India	Mumbai, Delhi	India	75%
Carat Nederland	Amsterdam	Netherlands	100%
Carat MediaBase	Kuala Lumpur	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%
Carat Scandinavia	Stockholm	Sweden	100%
Carat Sverige	Stockholm, Gothenburg, Malmo	Sweden	100%
Carat Research	Stockholm	Sweden	100%
Mediekompetens	Gothenburg, Stockholm	Sweden	100%
Micom Carat	Lausanne	Switzerland	100%
Micom Carat	Zurich	Switzerland	100%
Carat Media Services (Thailand)	Bangkok	Thailand	49% (51% voting)
Carat Turkey	Istanbul	Turkey	100%
Carat Ukraine	Kiev	Ukraine	100%
Carat North America	New York	USA	100%
Carat ICG	Los Angeles, San Francisco, Atlanta, Chicago, Memphis, Portland, Denver and St. Louis	USA	100%
MMA Carat	Wilton	USA	100%
Carat MBS	New York	USA	100%
Carat Freeman	Boston, San Francisco	USA	100%

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

With the exception of 100% shareholdings in Carat Group UK Limited, Carat International Limited and Carat Media Services 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, unless otherwise stated. A full list of all subsidiary undertakings, and the information shown above with respect to them, is filed with the Company's annual return.

25. Principal subsidiary and associated undertakings continued

Notes forming part of the financial statements
for the year ended 31 December 1998
continued

Principal associated undertakings:	Office	Country of incorporation and operation	Effective interest in issued ordinary share capital at 31 December 1998
Consodata	Paris	France	46.82%
Aerlig Talt	Oslo	Norway	34%
Mediasal 2000	Bilbao	Spain	23.9%
Carat Philippines	Manila	Philippines	30%
Feldt Visions Communication	Eltville	Germany	30%
CPM Media	Prague	Czech Republic	35%
CPM Media	Bratislava	Slovak Republic	50%
JV Bonds	Athens	Greece	40%

All shareholdings are of ordinary shares and all activities are in the field of media communications. All the results of the above associated undertakings have been equity accounted. At the year end, the Group owned 46.82% of the share capital of Consodata SA, of which 4% carries no voting rights or rights to dividends.

Notice is hereby given that the Annual General Meeting of the Company will be held at 11 a.m. on Friday 21 May 1999 at 11A West Halkin Street, London SW1X 8JL for the purpose of transacting the ordinary business of the Annual General Meeting set out in resolutions 1 to 7, and special business, as set out in resolutions 8 to 11 and resolutions 10 and 11 will be proposed as special resolutions.

Notice of meeting

Ordinary business

1. To receive the statement of accounts for the financial year ended 31 December 1998 and the reports of the directors and auditors thereon.
2. To declare a final dividend of 0.50 pence per ordinary share.
3. To re-elect Eryck Rebbouh as a director of the Company, who retires by rotation and, being eligible, offers himself for re-election.
4. To re-elect Sir Peter Thompson as a director of the Company, who retires by rotation and, being eligible, offers himself for re-election.
5. To re-elect Philippe Villin as a director of the Company, who retires by rotation and, being eligible, offers himself for re-election.
6. To elect Douglas Flynn as a director of the Company, who was appointed since the last Annual General Meeting, and being eligible offers himself for election.
7. To re-appoint PricewaterhouseCoopers as auditors of the Company and to authorise the directors to fix their remuneration.

Special business

8. That the authorised share capital of the Company be increased from £60,000,000 to £75,000,000 by the creation of 300,000,000 additional ordinary shares of 5 pence each.
9. That, subject to the passing of resolution 8 above, 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 £15,900,000 provided that this authority shall expire (unless previously revoked or varied by the Company in general meeting) 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 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 issue, open offer or any other pre-emptive offer in favour of holders of ordinary shares where the equity securities attributable to the interests of such persons are proportionate (as nearly as may be) to the numbers of ordinary shares held by them, subject to such exclusions or other arrangements as the directors may 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 £2,387,850
    and shall expire (unless previously revoked or varied by the Company in general meeting) 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.
11. That the Company be and is hereby generally and unconditionally authorised to make one or more market purchases (as defined in Section 163 of the Companies Act 1985) of its ordinary shares of 5 pence each provided that:
    (a) the maximum number of shares which may be purchased is 47,996,000 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 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

Notice of meeting

continued

(c) the authority conferred by this resolution, unless previously renewed, shall expire on 20 November 2000 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 will 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.

By order of the Board

John Rowland

John Rowland FCIS
Company Secretary

11A West Halkin Street
London SW1X 8JL
22 March 1999

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, PO Box 457, Owen House, 8 Bankhead Crossway North, Edinburgh EH11 0XG) 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.
Copies of all directors' service contracts with the Company or its subsidiaries of more than one year's duration, and the register of directors' interests, will be available for inspection at 11A West Halkin Street, London SW1X 8JL during normal business hours on any business day from the date of this notice until the conclusion of the meeting.

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Shareholder information

Daily share price listing in London

System	Share type	Access code
TOPIC 3 (mid prices)	Ordinary	205
SEAQ (level 2)	Ordinary	50032
REUTERS	Ordinary	AGS.L

Financial calendar

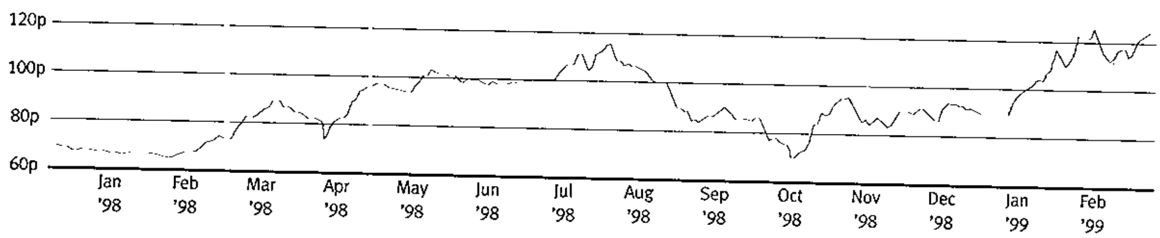
1 March 1999	Preliminary announcement of full year results
19 April 1999	Publication of annual report
21 May 1999	Annual General Meeting
September 1999	Announcement of interim results

CREST

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

Share price

From 1 January 1998 to 28 February 1999 (pence per ordinary share).



Total number of shares traded in 1998:	*828,142,000
Average monthly volume of shares traded in 1998:	*69,012,000

*The above figures exclude the placing trade reported on 27 April 1998

Analysis of Ordinary shareholdings at 31 December 1998

Size of holdings	No. of holders	%	No. of shares	%
1 – 1,000	1,065	38.89	409,215	0.04
1,001 – 10,000	916	33.44	3,347,410	0.35
10,001 – 25,000	165	6.02	2,692,938	0.28
25,001 – 50,000	89	3.25	3,261,862	0.34
50,001 – 100,000	85	3.10	6,269,478	0.66
100,001 – 250,000	139	5.08	24,018,669	2.52
250,001 – 500,000	79	2.88	27,315,887	2.86
500,001 – 1,000,000	65	2.37	47,129,343	4.93
1,000,001 – 10,000,000	119	4.35	366,062,387	38.33
10,000,001 – 25,000,000	11	0.40	175,250,486	18.35
25,000,000 and over	6	0.22	299,382,546	31.34
	2,739	**100.00**	**955,140,221**	**100.00**

Shareholder contact

In accordance with the recommendation of the Hampel Report on Corporance Governance published in January 1998, Sir Peter Thompson, a non-Executive director, has been nominated as the senior director to whom shareholders may convey their concerns in the event that they do not wish to involve either the Chairman or the Chief Executive.

Sir Peter Thomson is also Chairman of the Audit Committee and a member of the Nomination and Remuneration Committees.

14. Current asset investments

	Group 1998 £'m	Group 1997 £'m	Company 1998 £'m	Company 1997 £'m
Other investments	**0.1**	0.8	**–**	–

Current asset investments comprise unlisted investments.

Notes forming part of the financial statements
for the year ended 31 December 1998
continued

15. Creditors: amounts falling due within one year

	Group 1998 £'m	Group 1997 £'m	Company 1998 £'m	Company 1997 £'m
Bank loans and overdrafts	**69.8**	55.2	**109.0**	79.1
Less issue costs of debt to be amortised	**(0.2)**	(0.3)	**(0.2)**	(0.3)
	69.6	54.9	**108.8**	78.8
Trade creditors	**679.4**	589.6	**–**	–
Finance leases and hire purchase contracts	**0.2**	0.3	**–**	–
Amounts due to Group undertakings	**–**	–	**99.4**	96.7
Amounts due to associated undertakings	**–**	0.2	**–**	–
Taxation and social security	**16.8**	13.2	**0.1**	0.1
Corporation tax	**9.5**	7.7	**–**	–
Dividends payable	**4.8**	3.5	**4.8**	3.5
Other creditors	**45.4**	40.7	**2.7**	4.2
Accruals and deferred income	**33.6**	23.6	**2.7**	2.6
	859.3	733.7	**218.5**	185.9

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

	Group 1998 £'m	Group 1997 £'m	Company 1998 £'m	Company 1997 £'m
Bank loans	**6.9**	7.9	**–**	–
Less issue costs of debt to be amortised	**–**	(0.2)	**–**	(0.2)
	6.9	7.7	**–**	(0.2)
Finance leases and hire purchase contracts	**0.2**	0.4	**–**	–
Other creditors	**14.0**	19.7	**2.1**	2.5
	21.1	27.8	**2.1**	2.3

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. On 1 September 1998, the Group cancelled the media guarantee facility of £70 million, and replaced it with an Insurance Bond of £60 million. During the year, the Group repaid £1.2 million of the term loan. Interest is payable on the term loan and the revolving credit facility at LIBOR plus a maximum of 1.125%. The remaining facilities are secured by fixed and floating charges over the shares of certain subsidiary undertakings.

£6.9 million (1997: £7.9 million) is repayable between two and five years. No amount (1997: £nil) is repayable after more than five years. There is no amount in other creditors (1997: £nil) repayable in instalments more than five years from the date of the balance sheet.

17. Provisions for liabilities and charges

Group and Company:

Notes forming part of the financial statements
for the year ended 31 December 1998
continued

During the period, provisions of £0.2 million relating to surplus UK property 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 1998 or 31 December 1997.

18. Share capital

	1998 Equity £'m	1998 Non-equity £'m	1998 Total £'m	1997 Equity £'m	1997 Non-equity £'m	1997 Total £'m
Authorised:						
1,200,000,000 (1997: 1,200,000,000) ordinary shares of 5p each	**60.0**	–	**60.0**	60.0	–	60.0
Nil (1997: 68,181,820) variable rate convertible cumulative redeemable preference shares 2003 of 5p each	–	–	–	–	3.4	3.4
	60.0	–	**60.0**	60.0	3.4	63.4
Issued, allotted, called up and fully paid:						
955,140,221 (1997: 833,304,722) ordinary shares of 5p each	**47.8**	–	**47.8**	41.7	–	41.7
Nil (1997: 63,753,338) variable rate convertible cumulative redeemable preference shares 2003 of 5p each	–	–	–	–	3.2	3.2
	47.8	–	**47.8**	41.7	3.2	44.9

Ordinary shares

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

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

Reason for issue	No. of ordinary shares issued	Nominal value of ordinary shares issued	Consideration
Conversion of preference shares	63,753,338	£3,187,667	–
Subscription of warrants	47,995,000	£2,399,750	£14,398,500
Exercise of share options	10,087,161	£504,358	£3,026,566
Total	**121,835,499**	**£6,091,775**	**£17,425,066**

The Company received £17.4 million as consideration on exercise of share options and subscription of warrants. There are no preference shares or warrants outstanding at 31 December 1998.

Under the executive share option schemes there were outstanding at 31 December 1998, options over 94,220,289 ordinary shares of 5p each for which the participants have the right to exercise their options at prices ranging from 25.5p to 165.80p. These options are exercisable between 1 January 1997 and 1 June 2008.

19. Reserves

Notes forming part of the financial statements

for the year ended 31 December 1998

continued

	Share premium account (equity) £'m	Share premium account (non-equity) £'m	Capital redemption reserve £'m	Special reserve £'m	Profit and loss account £'m
Group:					
At 1 January 1998	33.8	10.7	0.2	21.9	(219.0)
Retained profit for the financial year	–	–	–	–	27.7
Issue of shares by the Company	14.5	–	–	–	–
Conversion of preference shares	10.7	(10.7)	–	–	–
Transfers	–	–	–	(17.4)	17.4
Currency translation differences on foreign currency net investments	–	–	–	–	(0.7)
At 31 December 1998	**59.0**	**–**	**0.2**	**4.5**	**(174.6)**

Goodwill arising on acquisitions up to 31 December 1997 of £565.2 million, which has been written off immediately to reserves, is included within the profit and loss reserve account.

	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 1998	33.8	10.7	0.2	21.9	13.0	119.0
Retained profit for the financial year	–	–	–	–	–	11.9
Issue of shares by the Company	14.5	–	–	–	–	–
Conversion of preference shares	10.7	(10.7)	–	–	–	–
Transfers	–	–	–	(17.4)	–	17.4
At 31 December 1998	**59.0**	**–**	**0.2**	**4.5**	**13.0**	**148.3**

Following the issue of shares during the year a further £17.4 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 1998 was £19.7 million (12 months to 31 December 1997: £4.5 million). Accumulated reserves for the Company include £111.3 million (1997: £111.3 million) which is not available for distribution under the terms of the court approved share premium account reduction scheme.

20. Acquisitions

Notes forming part of the financial statements

for the year ended 31 December 1998

continued

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

	Book value acquired £'m	Accounting policy alignment £'m	Other adjustments £'m	Fair value of net assets £'m
Net assets/(liabilities) acquired:				
Tangible fixed assets	0.7	(0.1)[a]	–	0.6
Debtors	5.4	(0.2)[b]	(0.1)[d]	5.1
Cash at bank and in hand	4.6	–	–	4.6
Creditors	(9.9)	(0.1)[c]	(0.2)[e]	(10.2)
Minority interest extinguished	0.7	–	–	0.7
	1.5	(0.4)	(0.3)	0.8
Goodwill capitilised in the year				17.5
				18.3

	£'m
Satisfied by:	
Cash consideration	8.7
Direct costs of acquisition	0.5
Deferred consideration (note 21)	9.1
	18.3

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, general bad debt provisions have been established consistent with the Group's accounting policy for that market.
(c) Adjustments have been made to change the basis of accounting from cash to accruals.

Other adjustments have been made for pre-acquisition items, not reflected in the acquisition balance sheet, as set out below:
(d) Provisions against specific bad debts of £0.1 million have been made against irrecoverable balances in Freeman Associates.
(e) In Freeman Associates and the Strategem Group, provisions have been made for redundancy costs of £0.1 million each.

Goodwill arising 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 1998
Bray	Australia	100%	100%
Freeman Associates Inc	USA	100%	100%
Halmarick	Australia	100%	100%
Strategem Group	Canada	100%	100%
David Cairns and Company Media Management Ltd	Canada	100%	100%
Saverne Conseil SA	France	100%	100%
Carat Media Services (Thailand) Co Ltd	Thailand	49%	49%
MW Office GmbH	Germany	24%	75%
Micom Carat SA	Switzerland	20%	100%
Micom Carat AG	Switzerland	40%	100%
Carat Turkey	Turkey	30%	100%

20. Acquisitions continued

Further details on the aquisitions in the year are set out below:

Bray

With effect from 1 January 1998, the Group acquired the business of Bray Limited in Sydney, Australia (now renamed "Carat Australia Media Services"). The initial cash consideration was £0.8 million (A$2.1 million). Further contingent consideration payable in cash of up to £0.9 million (A$2.4 million) may also be paid between 2000 and 2001 subject to specified growth criteria.

Freeman Associates Inc

With effect from 1 January 1998, the Group acquired a 100% interest in Freeman Associates Inc based near Boston, USA (now renamed "Carat Freeman"). The initial cash consideration was £3.3 million (US$5.3 million). Further contingent consideration payable in cash of up to £4.5 million (US$7.5 million) may also be paid between 1999 and 2001 subject to specified growth criteria.

Halmarick

With effect from 1 January 1998, the Group acquired the business of Halmarick Limited in Sydney, Australia (now renamed "Carat Australia Media Services"). The initial cash consideration was £1.5m (A$4.0 million). Further contingent consideration payable in cash of up to £1.1 million (A$3.0 million) may also be paid between 1999 and 2001 subject to specified growth criteria.

Strategem Group

With effect from 1 January 1998, the Group acquired 49% of the voting rights and 100% of the equity shares in the Strategem Group in Montreal, Canada (now renamed "Groupe Carat Strategem"). The Group is entitled, inter alia, to 100% of the dividends arising from Groupe Carat Strategem and these entities are consolidated on that basis. The initial cash consideration was £0.7 million (CAN$1.8 million). Further contingent consideration payable in cash of up to £1.3 million (CAN$3.0 million) may also be paid between 1999 and 2001 subject to specified growth criteria.

David Cairns and Company Media Management Limited

On 22 December 1998, the Group acquired 49% of the voting rights and 100% of the equity shares in David Cairns and Company Media Management Limited (now renamed "Carat Cairns") in Toronto, Canada. The Group is entitled, inter alia, to 100% of the dividends arising from Carat Cairns and has been consolidated on that basis. The initial cash consideration was £0.4 million (CAN$1.0 million). Further contingent consideration payable in cash of up to £0.9 million (CAN$2.3 million) may also be paid between 1999 and 2001 subject to specified growth criteria.

Saverne Conseil SA

With effect from 1 July 1998, the Group acquired a 100% interest in the Saverne Conseil SA in Paris, France. The initial cash consideration was £0.1 million (FFr1.6 million) paid in cash. Further fixed consideration of £0.1 million is payable in 1999 in cash and contingent consideration payable in cash of up to £0.3 million (FFr3.4 million) may also be paid between 1999 and 2001 subject to specified growth criteria.

Carat Media Services (Thailand) Co Limited

On 6 August 1998, the Group acquired the media business of Chuo Senko Thailand Company Limited for £1.0 million (Baht 70 million) paid in cash. The Group has established a joint venture company with Chuo Senko called Carat Media Services (Thailand) Company Limited in which the Group has voting rights of 51% and equity stake of 49%. Aegis has the right to appoint four out of the seven directors.

MW Office GmbH

On 31 December 1998, the Group acquired a further 24% interest in MW Office GmbH for £0.6 million (DM1.9 million) paid in cash.

Micom Carat SA and Micom Carat AG

On 24 August 1998, the Group acquired the remaining 20% interest in Micom Carat SA in Lausanne for £0.1 million (CHF0.2 million) in cash and the remaining 40% interest in Micom Carat AG in Zurich for £0.1 million (CHF0.2 million) in ca

Carat Turkey

On 14 December 1998, the Group acquired the remaining 30% interest in Carat Turkey for £0.1 million (DM0.2 million).

21. Contingent liabilities and other commitments

Notes forming part of the financial statements

for the year ended 31 December 1998

continued

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 1998 for payments that may be due is as follows:

	1998 £'m	1997 £'m
Within one year	**12.1**	5.6
Between one and two years	**7.4**	6.5
Between two and five years	**4.3**	9.4
	23.8	21.5

All of the contingent deferred payments noted above are payable in cash. The minimum liability is £9.4 million.

In addition to the deferred payments disclosed above, in 1997, as partial consideration for the acquisition of a 100% interest in International Communications Group, a wholly-owned, US subsidiary holding company of Aegis Group plc issued preference shares to the vendors of the International Communications Group. 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 and amounted to £10.5 million (US$17.4 million) at 31 December 1998.

Put options held by outstanding minority interests

Put options are held by minority interests in respect of Carat companies in Germany, Greece, Thailand and the United Kingdom, exercisable between 1998 and 2002. 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 £6.1 million, payable in a combination of cash and ordinary shares.

Guarantees

Guarantees of £17.0 million (1997: £13.9 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 1998, 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	3.3	0.6	–
Between one and five years	3.8	1.1	0.3
After more than five years	2.3	0.7	1.4
31 December 1998	**9.4**	**2.4**	**1.7**
31 December 1997	7.8	1.3	1.7

22. Related parties

Notes forming part of the financial statements
for the year ended 31 December 1998
continued

In addition to the disclosures set out in the Report of the directors' and note 20 of these accounts, the Group had the following related party transactions in 1998:

Related party transactions with associated undertakings

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

Carat España SA purchased media space on behalf of Mediasal 2000 SA, an associated undertaking, totalling £15,312,868 in 1998. The balance due at the year end was £5,027,139 (1997: £3,053,548).

Carat Hellas SA provided planning and media buying services to JV Bonds, an associated undertaking, for a fee of £139,749 in 1998. The balance due at year end was £59,352 (1997: £nil).

Carat France SA provided administration services to Consodata SA, an associated undertaking, for a fee of £51,217 in 1998. The balance due at the year end was £24,209 (1997: £36,571). Carat France also provided a loan to Consodata SA of £1,491,285 (1997: £202,051).

Carat España SA was paid an outstanding balance due from Consodata España SA of £3,031 for costs incurred on its behalf; there was no balance outstanding at the year end (1997: £3,031).

Consodata Europe Limited provided management and other services to Consodata UK Limited of £400,000 and to Consodata España SA of £60,000. The balance due at the year end was £470,000 (1997: £nil) from Consodata UK Limited and £60,000 (1997: £nil) from Consodata España SA. In addition, Consodata Europe Limited settled its outstanding balance with Consodata SA of £234,985.

23. Financial instruments

Treasury management and financial instruments

The Group's Treasury department is responsible for managing the Group's financing and treasury risks. The Board of directors sets formal parameters and guidelines on the use of financial instruments to manage risk and reviews these regularly. The Group does not trade in financial instruments nor engage in speculative arrangements and it is the Group's policy not to use any complex financial instruments, unless, in exceptional circumstances, it is necessary to cover defined risks.

Management of financial risk

The Group considers its major financial risks to be credit risk, liquidity, interest rate risk and currency risk. The Group's policies with regard to these risks and how financial instruments are used to manage these risks are set out below:

Credit risk

The Group's exposure with banks and other institutions is limited by the use of dealing limits set by reference to ratings provided by the major credit rating agencies.

Liquidity

It is the Group's policy that funding required by an overseas operation should be provided locally where appropriate and that these should be adequate to cover the needs of the business. A further analysis of local and Group facilities is set out below.

At 31 December 1998, the Group had net funds (before finance lease obligations) of £37.3 million (1997: Net debt of £1.5 million). The Group had cash balances of £114.0 million at 31 December 1998 (1997: £61.6 million) which were held mainly in the Group's trading companies and gross borrowings of £76.7 million (1997: £63.1 million).

Interest rate risk

The Group's policy is not to enter into any long-term arrangement that fixes or caps any portion of debt. All borrowings are floating rate.The Group's cash and borrowings currently offset each other and any arrangement to fix the interest rate would result in the Group having a potential exposure.

Currency risk

The Group's foreign currency management policy requires subsidiaries to use short-term forward exchange contracts to hedge all transactions with material currency exposures. The Group's accounting policy is to translate the profits of overseas investments at the average exchange rate for the year and to translate the net assets at year end rates. It is the Group's policy not to hedge exposures arising from profit translation.

23. Financial instruments continued

Notes forming part of the financial statements

for the year ended 31 December 1998

continued

Currency risk continued

The Group's policy is to borrow locally wherever possible to act as a hedge against the translation risk arising from its net investments overseas. Gains and losses arising on net investments overseas are recognised in the statement of total recognised gains and losses.

Short term debtors and creditors

Short-term debtors and creditors have been excluded from all disclosures, other than the currency risk disclosures.

Analysis of interest rate risk profile of financial liabilities of the Group

The currency and interest rate risk profile of the financial liabilities of the Group at 31 December, all of which were at floating interest rates, was:

	Floating rate financial liabilities 1998 £'m	Floating rate financial liabilities 1997 £'m
Sterling	**48.4**	33.6
Deutschemark	**6.5**	6.1
French Franc	**2.6**	3.6
Spanish Peseta	**5.3**	7.6
Other EU currencies	**0.2**	–
US Dollar	**12.7**	12.0
Other currencies	**1.0**	0.2
	76.7	63.1

Interest is payable on the above financial liabilities based on the relevant national LIBOR plus a maximum of 1.125%. The weighted average interest rate for the year ended 31 December 1998 was 6.2% (1997: 5.9%).

There were no fixed rate financial liabilities at 31 December 1998 (1997: £nil). In addition to the liabilities above, the Group had creditors due after more than one year of £14.0 million (1997: £19.7 million) on which no interest is paid (principally representing deferred consideration on acquisitions) and finance lease obligations of £0.4 million (1997: £0.7 million) which are mostly held in Sterling.

Analysis of interest rate risk profile of financial assets of the Group

The currency and interest rate risk profile of the financial assets of the Group at 31 December, all of which were at floating interest rates, was:

	Cash at bank and in hand 1998 £'m	**Current asset investments 1998 £'m**	**Total 1998 £'m**	Cash at bank and in hand 1997 £'m	Current asset investments 1997 £'m	Total 1997 £'m
Sterling	**24.7**	**–**	**24.7**	2.9	–	2.9
Deutschemark	**24.3**	**–**	**24.3**	24.9	–	24.9
French Franc	**8.0**	**–**	**8.0**	4.2	–	4.2
Spanish Peseta	**6.2**	**–**	**6.2**	0.1	–	0.1
Other EU currencies	**28.7**	**–**	**28.7**	23.5	–	23.5
US Dollar	**13.4**	**–**	**13.4**	3.3	–	3.3
Other currencies	**8.7**	**0.1**	**8.8**	2.7	0.8	3.5
	114.0	**0.1**	**114.1**	61.6	0.8	62.4

Current asset investments comprise short-term money market investments. Floating rate cash earns interest based on the relevant national LIBID equivalent. In addition to the financial assets above, the Group had other fixed asset investments of £0.7 million, £0.4m in Deutschemarks and £0.3 million in French Francs (1997: £0.3 million, all in French Francs), which do not yield an interest-related income and which do not have a fixed maturity date.

Notes forming part of the financial statements
for the year ended 31 December 1998
continued

Fair values of the Group's financial assets and liabilities

The fair value of the Group's floating rate financial liabilities, as calculated by discounting the book value of current obligations as at 31 December 1998, was £72.3 million (1997: £62.5 million). The floating rate financial liabilities have been discounted using the Group's weighted average cost of debt. There are no material differences between the book and fair values of the Group's financial assets and other financial liabilities.

Maturity of financial liabilities

The maturity profile of the Group's financial liabilities is set out in notes 15, 16 and 21.

Borrowing facilities

The Group had the following undrawn, committed borrowing facilities available at 31 December in respect of which all conditions precedent had been met at that date:

	1998 £'m	1997 £'m
Expiring within one year	**49.0**	–
Expiring between one and two years	**16.0**	70.0
Expiring between two and five years	**–**	–
	65.0	70.0

Of the amounts disclosed above at 31 December 1998 £49.0 million may be extended by the Group for up to a further two years. All covenants at 31 December 1998 were met.

Market risk

At 31 December 1998, on the basis of existing net cash balances, it is estimated that a general movement of 1% in interest rates would impact 1998 profit before tax by £0.1m.

It is also estimated that a general movement of Sterling by 1% would impact 1998 profit before tax by approximately £0.4 million.

Currency exposures

No Group companies have material monetary assets and liabilities in currencies other than that of the local functional currency.

Hedges of future transactions

At 31 December 1998 and 1997, there were no material foreign exchange contracts to hedge against future transaction flows.

Financial instruments held for trading purposes

The Group does not trade in financial instruments.

24. Post balance sheet events

On 18 January 1999, the Group disposed of its 46.82% interest in the Consodata Group based in France for £6.5 million (FFr60.8 million) to the existing management and to the Alpha investment Group. As part of this disposal, Carat France will make a loan to Consodata of £3.3 million (FFr31.7 million) half of which is repayable on 31 December 1999 and the remainder of which is repayable on 31 December 2000. In the event that Consodata floats before either date, any outstanding loan amount becomes immediately repayable. The Group will realise a profit on disposal of approximately £1.5 million in 1999 after providing for this loan (the remaining profit relating to the loan will be recognised when the cash is received).

25. Principal subsidiary and associated undertakings

Notes forming part of the financial statements

for the year ended 31 December 1998

continued

Principal subsidiary undertakings:	Office	Country of incorporation and operation	Effective interest in issued ordinary share capital at 31 December 1998
Carat Australia Media Services	Sydney	Australia	100%
Carat Bray	Sydney	Australia	100%
Carat Halmarick	Sydney	Australia	100%
HMS Carat	Vienna	Austria	100%
Carat Crystal	Brussels	Belgium	100%
Carat Canada	Montreal	Canada	100%
Groupe Carat Strategem	Montreal	Canada	100% (49% voting)
K2 Media	Montreal	Canada	100% (49% voting)
Carat Cairns	Toronto	Canada	100% (49% voting)
HMS Carat	Prague	Czech Republic	100%
Carat Danmark	Copenhagen	Denmark	100%
Carat Media Research	Copenhagen	Denmark	100%
Carat Group UK	London	England and Wales	100%
Carat	London	England and Wales	100%
Carat Direct	London	England and Wales	100%
Carat Manchester	Manchester	England and Wales	100%
Carat Direct Manchester	Manchester	England and Wales	100%
BBJ Media Services	London	England and Wales	75%
Carat Business	London	England and Wales	100%
Posterscope	London	England and Wales	100%
Posterscope in the North	Manchester	England and Wales	100%
Carat Insight	London	England and Wales	100%
Carat Interactive	London	England and Wales	100%
Carat International	London	England and Wales	100%
Carat Media Services	London	England and Wales	100%
Consodata Europe	London	England and Wales	100%
Carat Finland	Helsinki	Finland	100%
Oy Inter Media	Helsinki	Finland	100%
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 Carat	Paris	France	100%
IPC	Paris	France	100%
Saverne Conseil	Paris	France	100%
Grap & Gides	Lille	France	100%
Carat Media Service	Wiesbaden	Germany	100%
HMS Media Service	Wiesbaden	Germany	100%
HMS and Carat Central Services	Wiesbaden	Germany	100%
Carat Visions	Wiesbaden	Germany	100%

25. Principal subsidiary and associated undertakings continued

Notes forming part of the financial statements

for the year ended 31 December 1998

continued

Principal subsidiary undertakings:	Office	Country of incorporation and operation	Effective interest in issued ordinary share capital at 31 December 1998
Carat Expert	Wiesbaden	Germany	100%
Carat Hamburg Media Service	Hamburg	Germany	100%
Panmedia	Eschborn	Germany	100%
MW Office	Munich	Germany	75%
PAP	Hamburg	Germany	51%
Carat Hellas	Athens	Greece	75.5%
Carat Creative	Athens	Greece	75.5%
HMS Carat	Budapest	Hungary	100%
Carat Italia	Milan, Turin, Florence, Rome	Italy	100%
Carat Expert	Milan	Italy	100%
Carat Visions	Milan	Italy	100%
Carat India	Mumbai, Delhi	India	75%
Carat Nederland	Amsterdam	Netherlands	100%
Carat MediaBase	Kuala Lumpur	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%
Carat Scandinavia	Stockholm	Sweden	100%
Carat Sverige	Stockholm, Gothenburg, Malmo	Sweden	100%
Carat Research	Stockholm	Sweden	100%
Mediekompetens	Gothenburg, Stockholm	Sweden	100%
Micom Carat	Lausanne	Switzerland	100%
Micom Carat	Zurich	Switzerland	100%
Carat Media Services (Thailand)	Bangkok	Thailand	49% (51% voting)
Carat Turkey	Istanbul	Turkey	100%
Carat Ukraine	Kiev	Ukraine	100%
Carat North America	New York	USA	100%
Carat ICG	Los Angeles, San Francisco, Atlanta, Chicago, Memphis, Portland, Denver and St. Louis	USA	100%
MMA Carat	Wilton	USA	100%
Carat MBS	New York	USA	100%
Carat Freeman	Boston, San Francisco	USA	100%

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

With the exception of 100% shareholdings in Carat Group UK Limited, Carat International Limited and Carat Media Services 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, unless otherwise stated. A full list of all subsidiary undertakings, and the information shown above with respect to them, is filed with the Company's annual return.

25. Principal subsidiary and associated undertakings continued

Notes forming part of the financial statements
for the year ended 31 December 1998
continued

Principal associated undertakings:	Office	Country of incorporation and operation	Effective interest in issued ordinary share capital at 31 December 1998
Consodata	Paris	France	46.82%
Aerlig Talt	Oslo	Norway	34%
Mediasal 2000	Bilbao	Spain	23.9%
Carat Philippines	Manila	Philippines	30%
Feldt Visions Communication	Eltville	Germany	30%
CPM Media	Prague	Czech Republic	35%
CPM Media	Bratislava	Slovak Republic	50%
JV Bonds	Athens	Greece	40%

All shareholdings are of ordinary shares and all activities are in the field of media communications. All the results of the above associated undertakings have been equity accounted. At the year end, the Group owned 46.82% of the share capital of Consodata SA, of which 4% carries no voting rights or rights to dividends.

Notice is hereby given that the Annual General Meeting of the Company will be held at 11 a.m. on Friday 21 May 1999 at 11A West Halkin Street, London SW1X 8JL for the purpose of transacting the ordinary business of the Annual General Meeting set out in resolutions 1 to 7, and special business, as set out in resolutions 8 to 11 and resolutions 10 and 11 will be proposed as special resolutions.

Notice of meeting

Ordinary business

1. To receive the statement of accounts for the financial year ended 31 December 1998 and the reports of the directors and auditors thereon.
2. To declare a final dividend of 0.50 pence per ordinary share.
3. To re-elect Eryck Rebbouh as a director of the Company, who retires by rotation and, being eligible, offers himself for re-election.
4. To re-elect Sir Peter Thompson as a director of the Company, who retires by rotation and, being eligible, offers himself for re-election.
5. To re-elect Philippe Villin as a director of the Company, who retires by rotation and, being eligible, offers himself for re-election.
6. To elect Douglas Flynn as a director of the Company, who was appointed since the last Annual General Meeting, and being eligible offers himself for election.
7. To re-appoint PricewaterhouseCoopers as auditors of the Company and to authorise the directors to fix their remuneration.

Special business

8. That the authorised share capital of the Company be increased from £60,000,000 to £75,000,000 by the creation of 300,000,000 additional ordinary shares of 5 pence each.
9. That, subject to the passing of resolution 8 above, 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 £15,900,000 provided that this authority shall expire (unless previously revoked or varied by the Company in general meeting) 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 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 issue, open offer or any other pre-emptive offer in favour of holders of ordinary shares where the equity securities attributable to the interests of such persons are proportionate (as nearly as may be) to the numbers of ordinary shares held by them, subject to such exclusions or other arrangements as the directors may 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 £2,387,850
    and shall expire (unless previously revoked or varied by the Company in general meeting) 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.
11. That the Company be and is hereby generally and unconditionally authorised to make one or more market purchases (as defined in Section 163 of the Companies Act 1985) of its ordinary shares of 5 pence each provided that:
    (a) the maximum number of shares which may be purchased is 47,996,000 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 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, unless previously renewed, shall expire on 20 November 2000 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 will 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.

Notice of meeting

continued

By order of the Board

John Rowland FCIS
Company Secretary

11A West Halkin Street
London SW1X 8JL
22 March 1999

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, PO Box 457, Owen House, 8 Bankhead Crossway North, Edinburgh EH11 0XG) 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.
Copies of all directors' service contracts with the Company or its subsidiaries of more than one year's duration, and the register of directors' interests, will be available for inspection at 11A West Halkin Street, London SW1X 8JL during normal business hours on any business day from the date of this notice until the conclusion of the meeting.

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Shareholder information

Daily share price listing in London

System	Share type	Access code
TOPIC 3 (mid prices)	Ordinary	205
SEAQ (level 2)	Ordinary	50032
REUTERS	Ordinary	AGS.L

Financial calendar

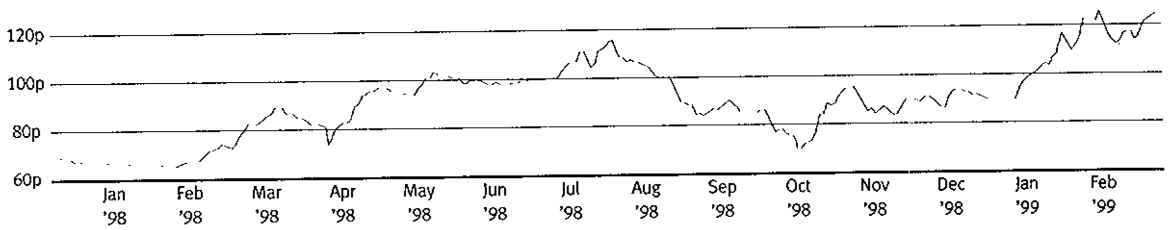
1 March 1999	Preliminary announcement of full year results
19 April 1999	Publication of annual report
21 May 1999	Annual General Meeting
September 1999	Announcement of interim results

CREST

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

Share price

From 1 January 1998 to 28 February 1999 (pence per ordinary share).



Total number of shares traded in 1998:	*828,142,000
Average monthly volume of shares traded in 1998:	*69,012,000

*The above figures exclude the placing trade reported on 27 April 1998

Analysis of Ordinary shareholdings at 31 December 1998

Size of holdings	No. of holders	%	No. of shares	%
1 – 1,000	1,065	38.89	409,215	0.04
1,001 – 10,000	916	33.44	3,347,410	0.35
10,001 – 25,000	165	6.02	2,692,938	0.28
25,001 – 50,000	89	3.25	3,261,862	0.34
50,001 – 100,000	85	3.10	6,269,478	0.66
100,001 – 250,000	139	5.08	24,018,669	2.52
250,001 – 500,000	79	2.88	27,315,887	2.86
500,001 – 1,000,000	65	2.37	47,129,343	4.93
1,000,001 – 10,000,000	119	4.35	366,062,387	38.33
10,000,001 – 25,000,000	11	0.40	175,250,486	18.35
25,000,000 and over	6	0.22	299,382,546	31.34
	2,739	**100.00**	**955,140,221**	**100.00**

Shareholder contact

In accordance with the recommendation of the Hampel Report on Corporance Governance published in January 1998, Sir Peter Thompson, a non-Executive director, has been nominated as the senior director to whom shareholders may convey their concerns in the event that they do not wish to involve either the Chairman or the Chief Executive.

Sir Peter Thomson is also Chairman of the Audit Committee and a member of the Nomination and Remuneration Committees.

	1998	1997	1996	1995	1994
Profit and loss:					
Turnover	**£4,130.0m**	£3,652.5m	£3,452.5m	£3,400.9m	£2,969.9m
Gross profit	**£221.0m**	£191.8m	£179.5m	£165.2m	£149.6m
% Gross profit to turnover	***5.4%***	*5.3%*	*5.2%*	*4.8%*	*5.0%*
Operating profit (before amortisation of goodwill and exceptional items)	**£50.6m**	£44.4m	£41.9m	£36.7m	£30.5m
Profit before tax, amortisation of goodwill and exceptional items	**£51.1m**	£43.5m	£41.0m	£33.6m	£27.4m
Profit before tax	**£50.6m**	£45.6m	£39.6m	£33.6m	£20.1m
Effective underlying tax rate	***28.4%***	*28.0%*	*27.0%*	*25.3%*	*18.2%*
Profit for the financial year	**£35.5m**	£32.8m	£28.0m	£23.5m	£13.1m

Cash flow:					
Operating cash flow	**£57.0m**	£54.5m	£42.7m	£35.0m	£(1.0)m
Net funds/(debt) at the year end	**£36.9m**	£(2.2)m	£(7.6)m	£(17.9)m	£(29.2)m

Balance sheet:					
Goodwill on acquisitions	**£17.0m**	–	–	–	–
Other fixed assets	**£17.8m**	£15.6m	£15.4m	£16.6m	£16.4m
Net current liabilities	**£(75.3)m**	£(93.3)m	£(79.6)m	£(70.4)m	£(59.8)m
Creditors: amounts falling due after more than one year	**£(21.1)m**	£(27.8)m	£(28.5)m	£(42.5)m	£(42.0)m
Provisions for liabilities and charges	–	£(0.2)m	£(2.3)m	£(7.0)m	£(25.0)m
Net liabilities	**£(61.6)m**	£(105.7)m	£(95.0)m	£(103.3)m	£(110.4)m

Shareholder returns:					
Basic earnings per share	**4.0p**	3.8p	3.3p	2.8p	1.6p
Fully diluted earnings per share	**3.7p**	3.4p*	3.0p*	2.6p*	1.5p*
Ordinary dividend rate per share	**0.85p**	0.7p	0.6p	–	–

*As restated under Financial Reporting Standard 14

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