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Chairman's statement

I am pleased to be able to report that we are on target to meet the goals laid out at the time of the 1995 rights issue. In line with this your Board is recommending that a dividend be paid in respect of 1996. This is the first dividend paid to Ordinary shareholders since April 1990. This reflects the much improved performance of the Group with profit before tax increasing by over £64 million to £42 million and earnings per share by over 18 pence to 5.5 pence, the highest level for eight years.

In 1996 there were encouraging signs that the revenue performance of the Group had begun to improve. Revenue increased by 6.1% after adjusting for disposals, exchange rate movements and accounts that left in the turmoil at the start of 1995. In the Group's major markets advertising expenditure grew at about 6.6% and based on forecasts by Zenith Media Worldwide the outlook over the next three years is for growth of about 6% per annum.

On the basis of the performance in 1996, and the revenue development activity, we anticipate the rights issue revenue target to be achievable, although there remains work to be done. The target is for revenue growth in line with the advertising expenditure in our major markets by the end of 1997. In the longer term, by successfully delivering to clients on our commitment to be the 'World's Best Creative Communications Resource', our revenue growth will be superior to the industry.

In 1996 operating margins before exceptional items were similar to 1995. In 1996 efficiency enhancement initiatives were taken which both reduced operating margins before exceptional items and resulted in exceptional costs of £16.5 million. Therefore we expect 1997 to show material progress towards the goal of a 10% margin by the end of 1998.

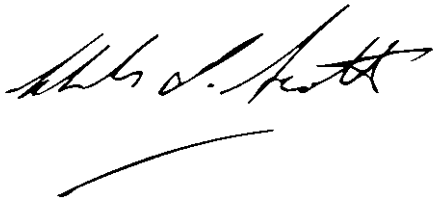
"THE PROGRESS MADE *reflects* THE GREAT EFFORT OF OUR PEOPLE AROUND THE WORLD"

The financial benefits of the 1995 rights issue are clearly seen in the results with lower interest costs and a more favourable tax rate. With average net debt substantially eliminated the renewed financial stability of the Group has assisted in the improved revenue performance and enabled us to invest in client driven acquisitions, for example in France, Korea and South Africa.

Investment in improving our service to clients continues, both in terms of the development and training of our human capital and in capital expenditure. Progress has been made in improving the effectiveness of the management of the operating units, in particular with much better worldwide co-operation and co-ordination. Initiatives to make better use of our existing resources continue, for example with the launch of *141 Worldwide* within Bates, the development of knowledge centres, such as *Kid Connection*, built around core competencies in Saatchi & Saatchi and the development of proprietary media systems under the *ZOOM* branding by Zenith.

Corporate governance, the performance of management and the role of major institutional shareholders remain very active issues for any Board. Your Board continues to take note of the latest developments. I believe this is a healthy debate but must not become detached from commercial reality.

The outlook is for further progress in achieving the 1995 rights issue goals of growing revenue in line with advertising expenditure by the end of 1997 and achieving operating margins of 10% by the end of 1998. These are demanding goals given the historic performance of the Group. Achieving those goals would be expected to improve shareholder value significantly. The progress made during 1996 reflects the great effort of the Group's people around the world. I thank them for their commitment and look to a future when clients, staff and shareholders will all prosper.



Charles Scott
Chairman
26 March 1997

Chief Executive's statement

During 1996 we established a firm base on which to build an improved performance by increasing revenue momentum and putting in place measures to improve margins. Since I joined the Group in July 1995, revenue has grown by about 6%, and we have increased market share in North America, UK, and Asia Pacific.

In 1996 revenue was 3.4% ahead of budget despite three major clients spending less than we expected. This shortfall, which impacted revenue by 1.6%, put pressure on our profitability as there was little opportunity in the short term to reduce costs on these accounts. This was more than compensated for by the profitability of incremental revenue, which also enabled us to undertake actions that will benefit revenue and margins in future. Our net new business performance was slow in the first half of 1996 but picked up in the second half and continues at a more encouraging level in 1997.

Efficiency initiatives continue at both individual unit level and at the Group level. In Bates there is a programme aimed at improving the profitability of marginal revenue growth. In Saatchi & Saatchi there is an initiative to re-engineer the way they supply services to clients. Although this has resulted in higher than anticipated severance costs in 1996, it is expected to improve margins in 1997.

In addition we have identified savings on benefit programmes in the USA and have begun to introduce more appropriate annual bonus schemes. The profit on disposal of our remaining interest in Draft Direct was similar in size to the exceptional operating cost incurred in respect of reducing future pension and property costs in the USA. We have also identified ways to reduce our financial costs. These include reducing our working capital requirements, and improving our tax efficiency.

Our goal is to be the 'World's Best Creative Communications Resource'. The core of our business is to understand consumers and brands. The better we understand them, the greater our ability to produce great creative marketing solutions that make a difference to our clients' businesses.

"WE MUST HAVE THE *needs* OF THE CLIENTS AT THE CENTRE OF OUR STRATEGY"

We have to do this in a way that is fulfilling for our people and rewarding for our shareholders. Our success in delivering this is measured objectively by the financial performance of the Group.

We must have the needs of clients at the centre of our strategy. Therefore we operate on a global scale, through multiple networks each with a distinctive branding. Bates and Saatchi & Saatchi are two of only about a dozen truly worldwide advertising networks. Our major networks have made progress in establishing clear identities in the past year: Bates as *The USP Agency,* building on one of the most powerful and lasting methodologies in advertising; Saatchi & Saatchi as the agency that believes *Nothing is Impossible;* and Zenith, as our media services network, delivering *Smart Efficiency.*

Our commitment to creativity was re-affirmed in 1996 both by the awards that we won, with Saatchi & Saatchi being the top network and Saatchi & Saatchi London being the top single agency at the International Advertising Festival at Cannes, and by the improved worldwide co-ordination of our creative resources – both Saatchi & Saatchi and Bates appointed worldwide creative directors. Furthermore, we supply integrated creative solutions within Bates and Saatchi & Saatchi, rather than just advertising, so as to maximise the effectiveness of the whole marketing campaign. In Bates this is being done in sales promotion through *141 Worldwide* and in direct marketing and interactive multimedia under the *XM* branding. In Saatchi & Saatchi the development of the *Kid Connection, HealthCare Connection* and *Saatchi & Saatchi Business Communications* provide in-depth understanding of particular targeted audiences across the various marketing disciplines. These are complemented by the development of successful stand-alone agencies, such as Cliff Freeman and Partners, which better meet the distinctive requirements of some clients.

In media there is an explosion in choice, audience fragmentation and measurement data. As a result there has been a revolution in media services over the last ten years which is continuing. Zenith is the first worldwide specialist media services network, and the *ZOOM* branding is at the forefront of supplying clients with the proprietary systems required to maximise the value of their advertising spend.

In 1997 we must demonstrate that we can continue to improve the performance of the Group by establishing a track record of growing underlying revenue at least in line with the markets in which we operate, of improving margins and generating free cash flow. While currency movements may disguise the progress in reported figures, particularly with regard to revenue, I believe that the Group will deliver against these measures.

Bob Seelert
Chief Executive Officer
26 March 1997

Creative marketing solutions

Bob Seelert
Chief Executive Officer
Cordiant plc

CLIENTS LOOK TO US TO MAKE A DIFFERENCE TO THEIR BUSINESS BY PROVIDING AN UNDERSTANDING OF THE CONSUMER. BASED ON THIS UNDERSTANDING WE CAN PROVIDE CLIENTS WITH CREATIVE MARKETING SOLUTIONS THAT COMMUNICATE IN A HIGHLY EFFECTIVE AND COMPELLING WAY.

Major clients require to be serviced on a global scale. It is no longer enough for an agency to be able to provide a client with a creative marketing solution that is effective in one market only, the creative idea has got to travel. The trend towards the globalisation of marketing by clients has resulted in increasing alignment of their brands with the major international networks. This has led to continued consolidation of market share among the leading marketing communication groups. Bates and Saatchi are now two out of only about a dozen truly global networks. They are represented in over 80 countries and each works for around 40 clients in five or more countries.

"PROPRIETARY *systems* PROVIDE A SEPARATOR THAT CLEARLY DEFINES THE POSITIONING OF OUR NETWORKS"

Both Bates' and Saatchi's networks have real strength at a local level. This means that although an account may be strategically driven on a global level, the creative execution can be structured to the political and cultural nuances of local markets. The ability to serve both local clients and global clients demonstrates the vitality of our agencies around the world. Cordiant believes that it is the strength of its networks' local agencies, producing ads that are both creatively excellent, yet strategically focused, which is an important factor in providing superior service to clients.

Within our networks proprietary systems manifest themselves in two distinct ways: governing the way the entire network approaches its understanding of the consumer as in Bates' Unique Selling Proposition; or providing centres of excellence within the network to focus on specific market sector opportunities – Saatchi & Saatchi's Kid Connection being

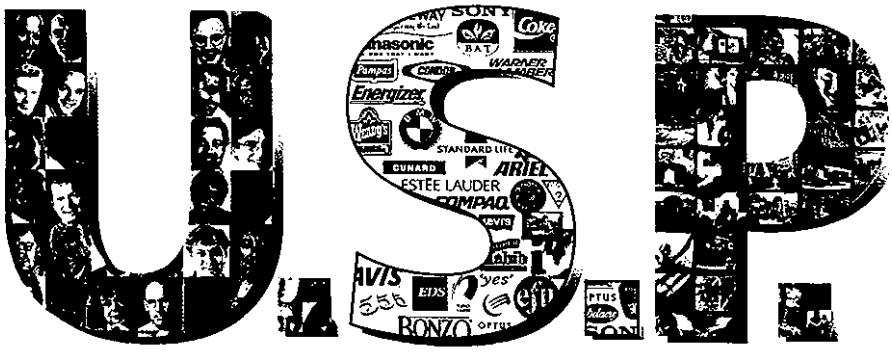
one such example. Both types of proprietary system have one thing in common, they provide an intellectual resource and proven methodology that can be applied to clients' brands around the world and that can be tailored to take account of local factors.

Proprietary systems are equally applicable to the effective use of media. With the ever rising number of available media opportunities and increased audience fragmentation, multinational marketers are seeking more efficient and targeted ways of reaching consumers around the globe. For this purpose Zenith Media has developed IT-based proprietary systems, branded ZOOM, which optimise media opportunities for clients across a broad spectrum of media, both nationally and internationally.

Bates creativity is U.S.P. creativity

Four years after it began, an Australian advertising campaign for Optus continues to fuel one of the world's fastest and most successful launches of a telecommunications company. Half a world away, the most striking and cost-effective financial services advertising campaign of the 1990's continues to give Halifax Building Society the strongest image profile of any financial services provider in the United Kingdom.

What do these highly successful Bates campaigns have in common? Their power to persuade, to sell and win the confidence of consumers are all derived from their



adherence to a core belief that is the foundation of our competitive advertising at Bates agencies around the world – the Unique Selling Proposition. 'U.S.P. creativity unearths the very essence of a brand and makes it irresistible by powerfully and persuasively demonstrating its uniqueness.'*

U.S.P. is a precise term with a precise meaning. First, it is about a uniqueness that is inherent in a brand; it must promise a benefit that no one else is offering. Second, a U.S.P. must sell – it must relate directly to the wants and needs of consumers and incite action. And thirdly, every U.S.P. must make a proposition to the customer, a clear and compelling promise about a benefit delivered by the product.

While the U.S.P. was first coined in 1961 by Rosser Reeves, a founder and then Chairman of Bates, in his best-selling book Reality in Advertising, today it is more relevant than ever and a vibrant part of Bates' heritage. We believe that every brand and every product has a U.S.P. which can be discovered through Bates' proprietary approach, thereby ensuring a greater probability of producing advertising that is creatively outstanding and effective in the marketplace.

Bates is the U.S.P. agency, and the U.S.P. is still the most effective selling philosophy ever devised.

With clients' increasing focus on integration and brand building we believe that we are seeing a renaissance in the client-agency partnership. As clients' needs are changing, they rely on their agency to provide them with an improved insight into the consumer, and greater international co-ordination and integration. Furthermore as the consumer becomes more sophisticated and elusive to traditional forms of communication, clients also want to know how to maximise the effectiveness of the increasing number of communication channels that are available.

For our networks', proprietary systems provide a separator – a recognised modus operandi – that clearly defines their positioning and identifies the network as

Saatchi's, 'marketing from the inside out'™

Saatchi & Saatchi's Kid Connection is an operation dedicated exclusively to the marketing of products to kids. It is a service that is offered to clients based on an intense understanding of kids – what they think, how they feel, what they care about – because "kids are not just little adults."This unique approach is called 'marketing from the inside out.'™ It is an understanding cultivated from years of in-market experience coupled with extensive research with child psychologists, cultural anthropologists and on-going one-on-one communications with more than 1,000 kids per year.

KID CONNECTION

Kid Connection evolved based on the belief that there was a better, different way to do the business of advertising. Rather than simply mirror clients with an agency structure and mind-set that focused on a product, it was decided, instead, to create a knowledge centre around an area of core competency that focused on a truly in-depth understanding of the client's target.

With more than 60 years' experience on more than 75 brands in nearly every kid category, Saatchi & Saatchi's Kid Connection offers clients the insights and competitive edge best suited to help them connect with kids.

For example, Kid Connection helped General Mills convert a simple strip of pressed fruit into a 350 million dollar plus product category for Betty Crocker fruit snacks. More recently, Kid Connection convinced Kodak that it could realise significant growth without incurring the expense of technological innovation by simply targeting kids, both for the immediate business it would yield, as well as the future volume that comes, by forming brand loyalties at an early age.

Kid Connection has been so well received by Saatchi & Saatchi's clients, it has also given rise to similar knowledge centres built around the core competencies of consumer healthcare marketing, business-to-business communications, interactive marketing and future/scenario planning. Like Kid Connection, these divisions have also provided a unique and successful entry to acquiring new business.

the provider of an innovative marketing approach. The emphasis on building brand equity also intensifies the need for co-ordination across all areas of the marketing mix: advertising, direct marketing, sales promotion, and public relations. Increasingly clients are looking to their marketing communications resource to provide totally integrated solutions.

When clients choose an agency they seek to form a long-term strategic partnership. Cordiant's networks offer clients innovative solutions that can break through the 'white noise' of competitive advertising and allow their brands to flourish in the international marketplace.

Zenith's leading edge media system

ZOOM (Zenith Optimisation of Media) represents Zenith's commitment to information technology and proprietary systems. With proliferating media choice, and the audience fragmentation it creates, has come data expansion on a logarithmic scale. The ability to process efficiently, manipulate and analyse this data via investment in proprietary systems, database creation and research is a major opportunity that Zenith exploits to deliver competitive advantage to its clients.

ZOOM represents Zenith's commitment to information technology and proprietary systems development. It falls in to three key areas: infrastructure, communication and proprietary media systems.

ZOOM

Firstly, a new infrastructure with standard hardware and software platforms, including desk-to-desk e-mail, has now been installed across the Zenith network. This has resulted in efficiency gains that have been passed on to our clients in terms of keener pricing.

Secondly, the development of Intranet communications using password protected web sites to facilitate the more efficient communication of information within Zenith's worldwide network, and externally to clients around the globe.

And finally, in the launch of proprietary systems in 1996. These have been developed to give Zenith's people the tools they need to allocate and negotiate media space and time. Proprietary systems have been developed both on a multinational and local basis. Major multinational systems include a television optimisation system, ZOOM Wizard; a brand/campaign awareness modelling system, ZOOM Maps; and, most recently, a powerful econometric modelling system able to forecast sales from media activity and other marketing dynamics, ZOOM Futures. Local systems include ZOOM Checkup (TV planning system) in Belgium, ZOOM Menfis (TV research and planning system) in Spain and ZOOM Director (direct response planning system) in the UK. More new proprietary sytems are under development for introduction in 1997, helping to keep Zenith at the leading edge of media systems' development.

Global media trends

Zenith publishes numerous guides and forecasts which have become accepted as authoritative for the advertising industry. The views given below are extracted from Zenith's latest edition of 'Advertising Expenditure Forecasts.'

"Growth IN ADVERTISING IS EXPECTED TO BE MAINTAINED THROUGH TO 1999"

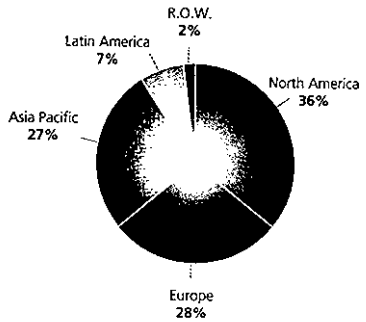
When Zenith started compiling its forecast of worldwide media spend through to 1999, there was a suspicion that out there somewhere lurked the next global recession. Contrary to Zenith's fears, and the expectations of its forecasters around the world, growth in advertising spend is expected to be sustained throughout the four year period 1996 to 1999.

In 1996 global advertising expenditure in the main media (press, television, radio, cinema and outdoor) grew by 4.2% in real terms to an estimated US$291,889 million. This trend is forecast to remain broadly constant through to 1999. A gentle peak is now thought to have been reached in 1995.

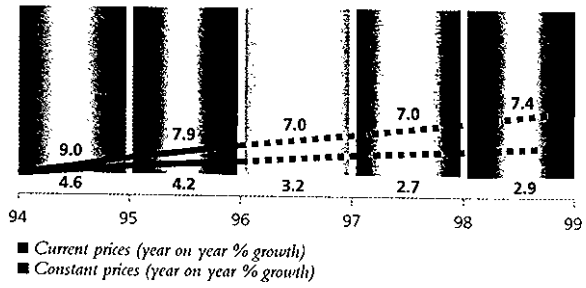
The positive longer-term prospects also reflect sustained economic and consumer growth in the emerging markets of Latin America and Southeast Asia.

In 1996, the established economies in North America, Europe and Asia Pacific accounted for 81% of worldwide advertising in major media. By 1999, this proportion is expected to have dropped to 76%. Mainstream media expenditure is broadly expected to maintain a static share of mature economies, in contrast to growing nations where media use is accelerating.

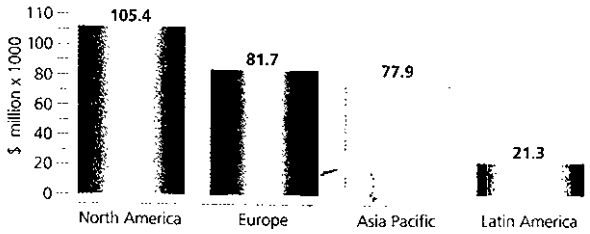
Regional proportions of worldwide expenditure 1996



Worldwide advertising expenditure growth trends



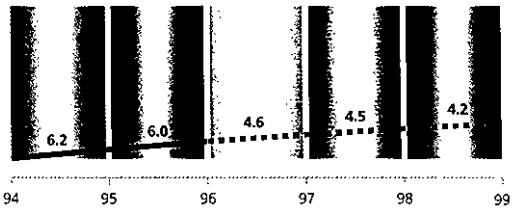
Regional expenditure 1996



Regional Trends

North America

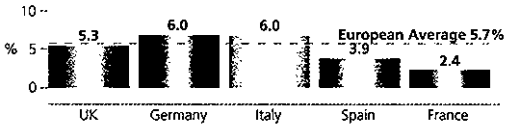
- Election year, in the USA, kept increases in advertising spend abreast of general economic growth. From 1997 it is forecast to slow down, but to still keep ahead of inflation.
- TV growing well ahead of the average thanks to rising broad-based advertiser demand and higher cable viewing.
- Newspapers will benefit from the buoyant economy, underpinned by revenue from classified advertising.
- The prospect of heavier regulation of alcohol and tobacco advertising is expected to benefit magazines, the medium which addresses the most specific audiences.



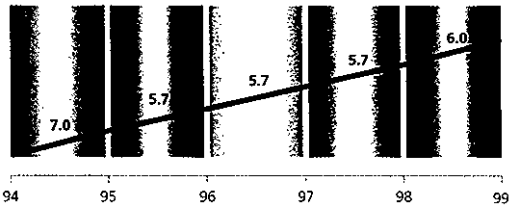
■ *Expenditure at current prices (year on year % growth)*

Europe

- Advertising expenditure is keeping pace with economic growth 1997-1999.
- Economic recovery is finally stabilising the oversupplied, television-dominated advertising markets in Spain and Italy.
- Anticipating monetary union, fiscal prudence is suppressing demand in France and Italy. Membership requirements for monetary union may be established during 1997, renewing confidence.
- UK is slipping below the Euro-average growth anticipating rising inflation and possible change in government, but the growth rate is expected to recover in 1998.
- German advertising spend is forecast to grow ahead of the economy up to 1999, with TV showing a particularly good performance.



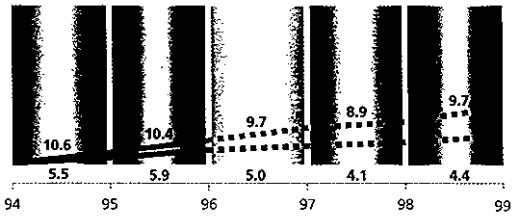
Current expenditure growth 1997 v 1996



■ *Expenditure at current prices (year on year % growth)*

Asia Pacific

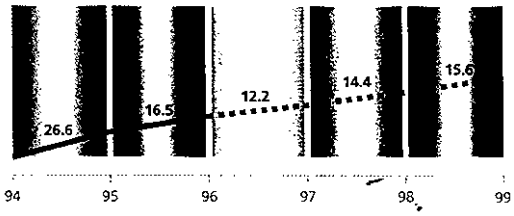
- Japan's advertising spend is estimated to have grown 6.0% in 1996, the fastest since 1990. Japan's share of regional advertising expenditure was 59% in 1996, and is forecast to be 51% in 1999.
- Indonesia, the Philippines, China and India are expected to be the world's fastest-growing advertising markets between now and 1999.
- Media spending in the first-wave 'tiger' economies of Singapore, South Korea and Taiwan is still growing in double-digits, but no longer accelerating as it once was.



■ *Expenditure at current prices (year on year % growth)*
■ *Expenditure in Japan, Australia & New Zealand at current prices (year on year % growth)*

Latin America

- Regional advertising expenditure is expected to rise 48% between 1996 and 1999.
- Expenditure has risen as a percentage of GDP since 1992, and is now the world's highest at 1.32%.



■ *Expenditure at current prices (year on year % growth)*

These forecasts are the copyright of Zenith Media Worldwide (a division of the Group).

Cordiant's global presence

"CORDIANT'S *global presence* IS ONE OF ITS GREATEST STRENGTHS"

Saatchi & Saatchi Advertising Worldwide *Advertising*

North America
Canada
Ontario
USA
California
Florida
New York
United Kingdom
London
Rest of Europe
Austria
Belarus
Belgium
Bulgaria
Croatia
Czech Republic
Denmark
Estonia
Finland
France
FYR Macedonia
Germany
Greece
Hungary
Ireland
Italy
Latvia
Lithuania
Netherlands
Norway
Poland
Portugal
Romania
Russia

Bates Worldwide *Advertising*

North America
Canada
Quebec
Ontario
USA
California
Florida
Georgia
Illinois
Indiana
Maryland
New York
Ohio
Texas
United Kingdom
London
Rest of Europe
Austria
Belarus
Belgium
Bulgaria
Croatia
Czech Republic
Denmark

Zenith Media Worldwide *Media services*

North America
USA
California
Colorado
Illinois
New York
Oregon
Texas

Rowland Worldwide *Communications management*

North America
Canada
Ontario
USA
California
Minnesota
New York
Washington DC
United Kingdom
London
Rest of Europe
Albania
Austria
Belgium
Bulgaria

Siegel & Gale *Design services*

USA
New York
California
United Kingdom
London
Rest of Europe
Germany
Rest of The World
South Africa

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New York
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Tel: (1) 212 707 4000

Slovenia
Spain
Sweden
Switzerland
Turkey
Ukraine
Yugoslavia
Rest of The World
Argentina
Australia
Barbados
Bermuda
Botswana
Brazil
Cameroon
Chile
Colombia
Costa Rica
Cote D'Ivoire
Dominican Republic
Ecuador
Egypt
El Salvador
Ghana
Greater China
Guatemala
Honduras
India
Indonesia
Israel
Jamaica
Japan
Jordan
Kenya
Kuwait
Lebanon
Madagascar
Malawi
Malaysia
Mauritius
Mexico
Mozambique
Namibia
New Zealand
Nigeria
Pakistan
Panama
Peru
Philippines
Puerto Rico
Saudi Arabia
Singapore
South Africa
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Thailand
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Portugal
Romania
Russia
Slovakia
Slovenia
Spain
Sweden
Switzerland
Turkey
Ukraine
Yugoslavia
Rest of The World
Argentina
Australia
Bangladesh
Brazil
Cambodia
Chile
Colombia
Costa Rica
Ecuador
El Salvador
Egypt
Greater China
Guatemala
Hong Kong
India
Indonesia
Israel
Japan
Jordan
Korea
Laos
Lebanon
Malaysia
Mexico
Myanmar
New Zealand
Pakistan
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Peru
Philippines
Puerto Rico
Singapore
South Africa
Sri Lanka
Taiwan
Thailand
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Venezuela
Vietnam

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Lithuania
Netherlands
Poland
Portugal
Russia
Slovakia
Slovenia
Spain
Sweden
Switzerland
Rest of The World
Argentina
Australia
Brazil
Greater China
India
Indonesia
Japan
Korea
Malaysia
Philippines
Puerto Rico
Singapore
South Africa
Sri Lanka
Taiwan
Thailand
Venezuela

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New York, NY 10019, USA
Tel: (1) 212 527 8800

Facilities Group *Production services*

United Kingdom
London

Whitfield House
81 Whitfield Street
London W1A 4AX
Tel: (44) 171 255 5100

National Research Group *Market research*

USA
California
United Kingdom
London

5900 Wilshire Boulevard
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Operating and financial review

Operating and financial review

1996 has been a year of progress and this has been reflected in the declaration of the first dividend to be paid to Ordinary shareholders since 1990. This reflects the much improved performance of the Group with profit before tax increasing by over £64 million to £41.8 million (1995: loss £22.6 million) and earnings per share rising to 5.5 pence (1995: loss 12.8p), the highest level for eight years. The much improved financial stability of the Group is attested by the decrease in net interest payable to £7.5 million (1995: £20.6 million); average net debt reduced to £15 million (1995: £125 million); with interest cover of 6.6 times. Revenue was better than expected with underlying revenue, which excludes the impact of exchange movements and disposals, increasing by 2.7% and trading margins maintained at 6.4%.

"1996 HAS BEEN A *year of progress* REFLECTED IN THE MUCH IMPROVED PERFORMANCE OF THE GROUP"

Accounting standards and policies

The Company has adopted FRS8. There have been no changes in either accounting standards or policies that had a material effect on the Group.

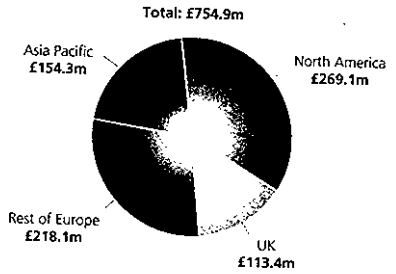
Revenue

The geographical splits of revenue and operating profit have been prepared on a basis that more closely reflects the operation and management of the Group.

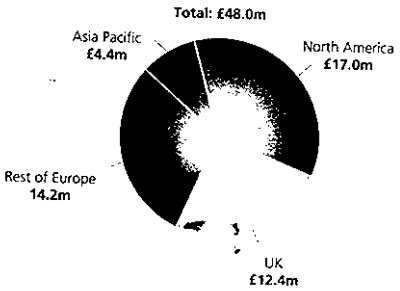
Revenue was £754.9 million (1995: £761.1 million) a decline of 0.8%. This was partly due to disposals in 1995 which contributed £29.3 million of revenue in that year. The underlying revenue, which excludes the impact of exchange movements and disposals, increased by 2.7%. The average US$/£ exchange rate was $1.56 (1995: $1.58).

Revenue was 3.5% ahead of budget despite three major clients spending less than we expected. This shortfall, which

Geographical split of revenue



Geographical split of operating profit before exceptional items

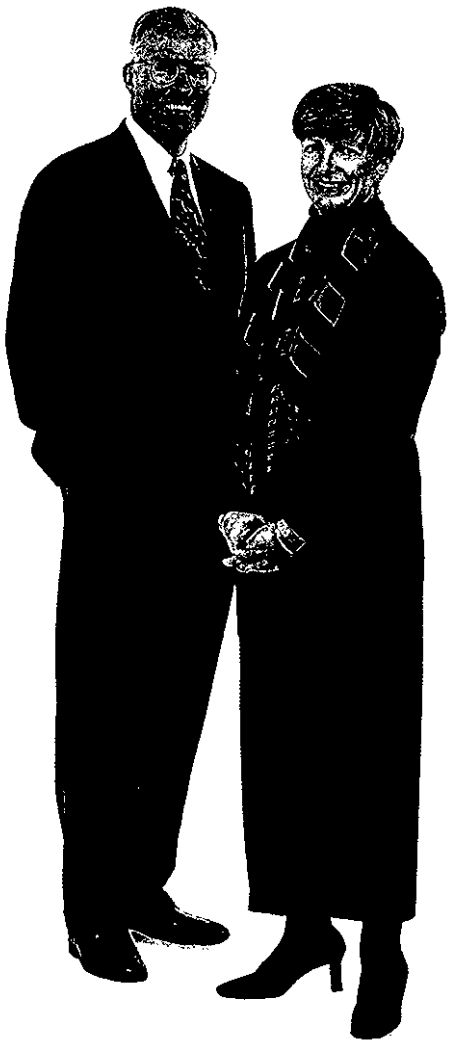


impacted revenue by 1.6%, put pressure on our profitability as there was little opportunity in the short term to reduce costs on these accounts. This was more than compensated for by the profitability of incremental revenue, which also enabled us to respond to opportunities that we expect will benefit revenue and margins in the future.

In North America revenue was £269.1 million (1995: £278.8 million) which represents a decline of 3.5% but an increase of 4.7% on an underlying basis. Growth was better than the market rate allowing for the high profile losses at the start of 1995 and the trading of individual units was encouraging. These losses particularly affected Bates New York which, despite this setback, still managed to grow its revenue over the period.

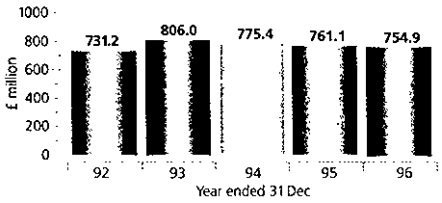
In the UK revenue increased only slightly to £113.4 million (1995: £111.7 million). This reflected the major account losses in the first half of 1995 which particularly hit Saatchi & Saatchi. Adjusting for the loss of that revenue Saatchi & Saatchi London increased its revenue by about 20% in 1996.

Revenue in the Rest of Europe decreased by 6.1% to £218.1 million (1995: £232.2 million). The underlying decline was 3.1% which reflected the 1995 account losses and a marketing initiative undertaken by a major client. Increases were achieved in Eastern Europe which was up by 27.5%, and Scandinavia, which was up 3.7%. Elsewhere in Europe, however, the

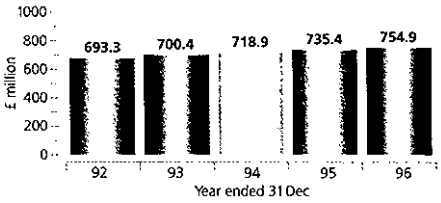


Building revenue and improving margins are key objectives. Bob Seelert, Chief Executive Officer and Wendy Smyth, Finance Director.

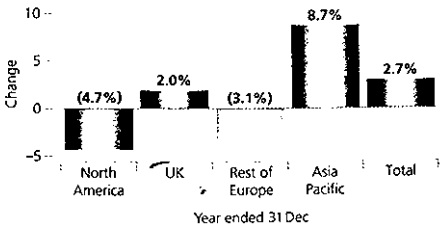
Revenue



Revenue from continuing operations at constant exchange rates excluding disposals



Underlying revenue growth



performance was more subdued: Spain was down by 11.4%; Belgium declined by 6.2%; France was down by 4.8%, and performances in Germany and Italy were little changed.

In Asia Pacific revenue increased by 11.5% to £154.3 million (1995: £138.4 million). There was a good underlying performance with revenues up 8.7%. Asia performed well with China increasing revenue by 41.4%, Australia achieving a 10.4% increase, but New Zealand declining by 5.2%.

Net operating expenses

In 1996, net operating expenses decreased to £723.4 million (1995: £732.8 million).

Severance costs were higher than budgeted at £5.8 million (1995: £4.0 million). The average number of Group employees was 10,209, a decline of 3.4% from the 1995 level of 10,570. Allowing for disposals, however, staff numbers increased by 1%. Increased staffing in Asia Pacific was offset by falling staff numbers in North America. Average staff cost per head declined by 0.7% and revenue per employee increased by 2.6%. Staff costs (excluding exceptional items) were 55.4% of revenue (1995: 57.1%). This reflected improved efficiency, a change in the operating structure of some units and changes in the geographic spread of the Group's businesses.

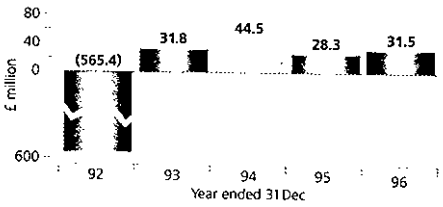
Trading profit (operating profit before exceptional operating expenses)

Trading profit decreased by 1.2% to £48.0 million (1995 £48.6 million) and increased 2.0% on an underlying basis. These figures are before exceptional operating costs of £16.5 million (1995: £20.3 million).

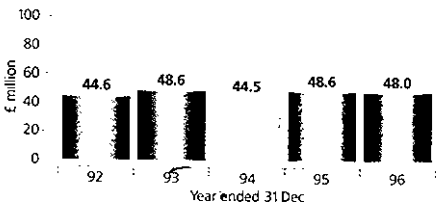
In North America there was good progress with trading profit increased by 19.7% to £17.0 million (1995: £14.2 million). On an underlying basis trading profit was up 30.2% but was restrained by three factors. First, development costs at Zenith where we chose to step up the level of investment, particularly in the spot TV market, reflecting our commitment to deliver the best media service to clients. Second, although Miller Brewing spent less than we budgeted, the level of service was maintained. Third, additional severance costs of about £3 million were incurred in the second half as part of the re-engineering process at Saatchi & Saatchi.

In the UK, trading profit was unchanged at £12.4 million. On an underlying basis performance was up 0.8% reflecting a good performance by most of the units in overcoming the difficulties of 1995.

Operating profit (loss) from continuing operations



Operating profit from continuing operations excluding exceptional items



Performance in the Rest of Europe was down by 18.9% to £14.2 million (1995: £17.5 million). The underlying performance saw a 14.9% decrease. During the period France improved, Italy was broadly similar and Germany and Spain were down.

Asia Pacific saw trading profit decrease by 2.2% to £4.4 million (1995: £4.5 million) and by 12.8% on an underlying basis. A good performance in Australia was offset by severance costs associated with Saatchi's re-engineering programme.

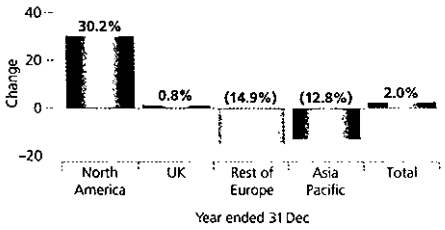
Operating margins (before exceptional operating expenses)

In 1996 the Group achieved trading margins of 6.4%, similar to levels achieved in 1995. Better than expected revenues, however, allowed us to undertake efficiency initiatives that are expected to improve margins in 1997 whilst still achieving our 1996 target for trading profit. In 1997, the better revenue momentum of the Group, together with the actions to improve operating efficiency, are expected to result in an increase in margins towards the goal of 10% by the end of 1998.

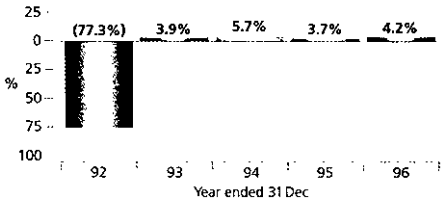
In North America, the trading margin increased to 6.3% (1995: 5.1%). A number of actions were taken in 1996 to improve margins, including the commencement of a re-engineering programme in Saatchi & Saatchi. Although these have had an adverse impact in 1996 we are confident that the benefits of these actions will start to flow through in 1997.

Good corporate practice and clear financial reporting are prime requirements.
Graham Howell, Company Secretary and General Counsel (left) and Tim Jackson, Director of Investor Relations.

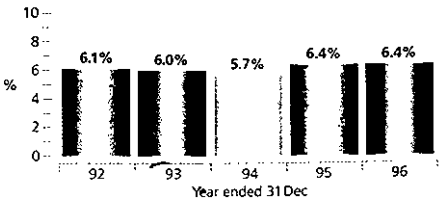
Underlying trading profit growth



Operating margins from continuing operations



Margins from continuing operations excluding exceptional items

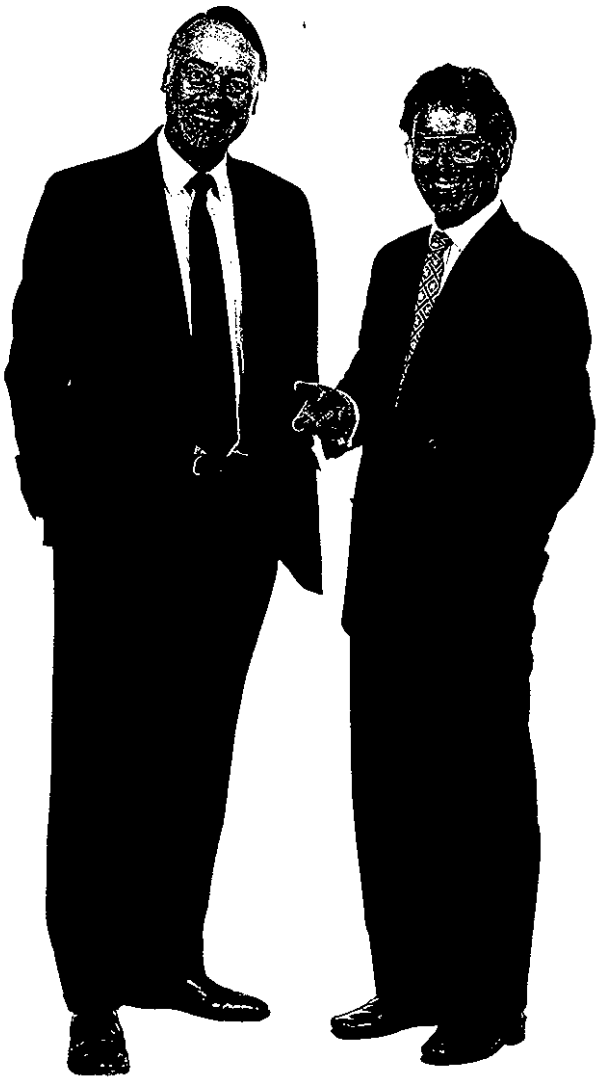


In the UK, the trading margin decreased slightly to 10.9% (1995: 11.1%). Whilst slightly down, the performance was pleasing and reflects the progress made since the first half of 1995.

The Rest of Europe saw a decline in margin to 6.5% (1995: 7.5%). This reflected client spending uncertainties, particularly at Saatchi & Saatchi.

The margin in Asia Pacific decreased to 2.9% (1995: 3.3%) due to severance costs associated with the Saatchi & Saatchi re-engineering programme. In 1997 one of the areas of focus in the Bates network will be on improving the region's margins but there will be some small additional costs related to the establishment of Zenith in Asia Pacific.

Sound financial management is a prerequisite for a global marketing communications group. Chris Bunton, Group Treasurer (left) and David Weatherseed, Group Controller.

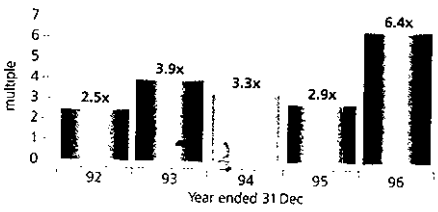


Exceptional items, disposals and net financial items

The Group's efficiency programme incurred exceptional operating costs of £16.5 million (1995: £20.3 million). These costs included £8.3 million related to the closure of the defined benefit pension plan in the USA in line with the general move away from such schemes. This will provide an annual cost saving of about £2.5 million. There was also a property provision of £8.2 million arising from a review of space utilisation by Saatchi & Saatchi in New York. This review identified the ability to free one floor of the building providing an annual saving of £1.3 million. The net cash impact of these actions is positive.

The £17.8 million profit on disposals related primarily to the sale of the remaining interest in Draft Direct. The balance reflected the receipt of additional proceeds from disposals in prior periods.

Net interest cover based on operating profit excluding exceptional items



Net interest payable and similar charges decreased to £7.5 million (1995: £20.6 million). Average net debt in the period was £15 million (1995: £125 million), reflecting the substantial elimination of our average net debt following the rights issue at the end of 1995. The average gross interest cost for the period was 7.2% (1995: 8.4%), the reduction reflecting lower market rates and the reduction in the spread over LIBOR that the Group is now paying. Total gross interest payable was £13.6 million (1995: £23.8 million) and interest receivable and similar items was £7.2 million (1995: £7.8 million). The Group both paid and received interest due to the media payments cycles and the cash balances held in its international operations. Bank fees amounted to £1.1 million (1995: £4.6 million including £3.9 million of exceptional financial costs). In 1997, bank fees will increase if the Group refinances its bank facilities. Interest cover was 6.6 times and 6.4 times (1995: 2.9 times) excluding exceptional items.

Profit (loss) before tax

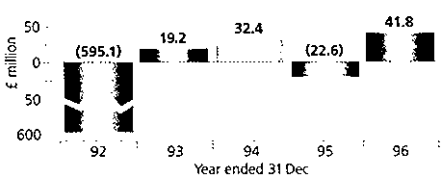
The profit before tax increased to £41.8 million (1995: loss of £22.6 million). The profit before tax and exceptional items showed a 27% increase to £40.5 million (1995: £31.9 million).

Tax and equity minority interests

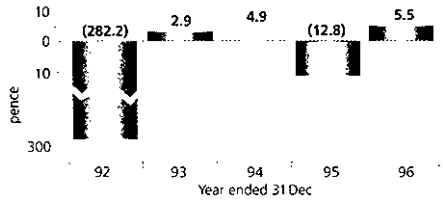
The tax charge of £14.8 million (1995: £11.9 million) represented a tax rate of 35.4%. The 1996 pre-exceptional tax rate of 36.5% was down substantially on the tax rate in 1995 of 43.9%. The reduction in tax rate reflected the change in the geographic mix of taxable profits and the beneficial impact of the rights issue which enabled the reduction of interest expense in the USA.

The difference between the actual tax charge of £14.8 million and applying the standard rate of UK tax of 33% was an adverse £1 million. Since 85% of the Group's business is located outside of the UK, the UK tax regime is not the dominant regime for the Group. The main components of the difference between the actual tax charge and the standard UK tax rate are the differences in rate (£2.3 million adverse), the tax effect of utilising brought forward losses (£1.4 million favourable), utilising provisions which are not eligible for tax relief until made use of (£1.5 million favourable), permanent differences between the manner in which income and expenditure are reflected in financial statements and recognised for tax purposes (£0.1 million favourable) and the write-off of surplus Advance Corporation Tax (£1.1 million adverse). Other factors amounted to a £0.6 million adverse impact.

Profit (loss) before tax



Basic earnings (loss) per share



Minority interests were unchanged at £2.8 million, with reductions due to the acquisitions of minority interests in France and Germany being offset by the new minority interests in Australia and South Africa. In September 1996 the Group completed the acquisition of the minority interest in Saatchi & Saatchi France. This took effect from the beginning of the year.

Return attributable to shareholders

There has been a £61.5 million improvement in the return to shareholders. Excluding the exceptional items and the profit or loss on disposals, the return to equity shareholders increased by 52% to £22.9 million (1995: £15.1 million).

The earnings per share were 5.5p (1995: loss of 12.8p). The IIMR headline figure, which excludes the impact of any profit or loss on disposals, was 1.4p (1995: loss of 2.4p), and the earnings figure excluding all exceptionals was 5.2p (1995: 5.2p). The recommendation by the Board to pay a 1.0p net dividend (1995: nil) means that £19.8 million is transferred to reserves (1995: loss £37.3 million). The dividend is covered 4.4 times on reported earnings and 4.3 times on pre-exceptional earnings.

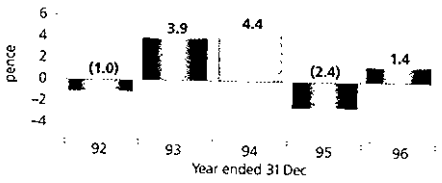
The total recognised gain in 1996 was £31.0 million (1995: loss of £35.5 million) which included a favourable translation adjustment of £6.8 million (1995: favourable £1.8 million). This adjustment is due to the retranslation of the tangible assets and liabilities of the overseas subsidiaries at the current year-end exchange rates. The intangible assets of the Group are significant but are not recognised on the balance sheet.

Goodwill of £17.4 million (1995: £12.2 million) arose during the year primarily from payments made to acquire outstanding minority interests. Acquired goodwill is eliminated against reserves when it arises. Share issues during the year increased share capital by £0.4 million (1995: £127.2 million). The equity shareholders' deficit was reduced by £9.6 million (1995: reduction of £130.6 million).

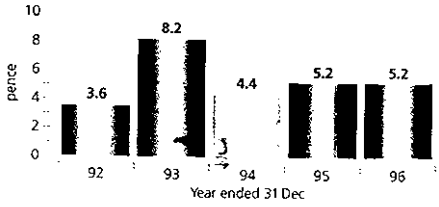
Financial gearing

In 1996 the Group benefited from the rights issue that was completed at the end of 1995. Therefore in 1996 the Group had its lowest level of leverage since the early 1980's with average net debt in 1996 of £15 million (1995: £125 million). This stability allowed the operating businesses to develop from a position of financial security. This continues in 1997.

IIMR earnings (loss) per share



Adjusted earnings per share (excluding exceptional items)



Capital structure

The economic value of the businesses is difficult to represent on the balance sheet, particularly as that value is primarily intangible. The Group, in common with most other UK companies, makes no attempt to do so.

The Group has a two-tier capital structure consisting of senior debt and equity. Of the senior debt, all but £6.2 million (which represents the Convertible Unsecured Loan Stock 2015) consists of various bank facilities whose covenants and key terms are governed by a facilities agreement. Following the rights issue completed at the end of 1995, a new facilities agreement came into effect which provided the Group with committed facilities totalling £163.7 million at a rate generally equivalent to 1.5% over LIBOR with a final maturity in January 1999. These facilities stood at £127.2 million at the end of 1996. The facilities were reduced by £36.5 million in 1996, of which £12.2 million relates to exchange rates, and will reduce by a further £8.5 million in 1997 and £27.5 million in 1998. Following the improved results in 1996, the Group will examine alternatives to refinance these facilities on longer maturities and improved terms during 1997.

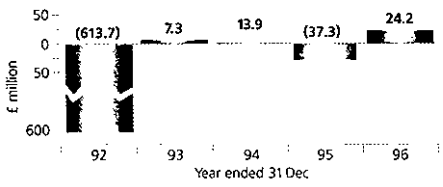
The Group's drawings, including the Convertible Unsecured Loan Stock 2015, against its core borrowing facilities on 31 December 1996 were £85.3 million (1995: £113.5 million), compared with facilities of £133.4 million (1995: £169.9 million).

Conventional measures of gearing (e.g. debt/book net worth ratio) are not meaningful in an advertising business and more appropriate yardsticks are those of interest cover and the ratio of net debt to earnings before interest, tax and depreciation (EBITD). Interest cover in 1996 was 6.6 times (1995: not meaningful). Net debt to EBITD was 0.4 times at the end of 1996 (1995: 0.4 times). It is the Directors' intention that debt should remain low in order to allow the operating management to run their businesses from a position of financial strength.

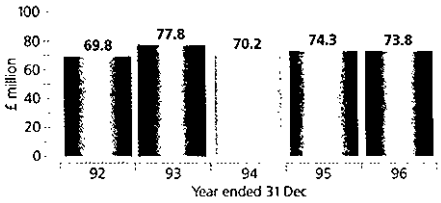
Cash flow

The net debt and cash position was little changed before financing (1995: £12.0 million deterioration). Net working capital improved by £16.3 million (1995: £25.6 million deterioration). Disposals, primarily of the remaining interest in Draft Direct, generated £9.9 million (1995: £26.7 million), while acquisitions of £23.6 million (1995: £7.3 million) were primarily

Profit (loss) for the year



Earnings from continuing operations before interest, tax, depreciation and exceptional items (EBITD)



purchases of equity minority interests. Depreciation exceeded net capital expenditure by £1.8 million (1995: £4.6 million).

In 1997 the Directors expect that depreciation will be similar to capital expenditure. The cash requirements during 1996 were funded from existing banking lines.

Financial risk management

The Group is exposed to exchange rate movements to the extent of profits earned outside the UK. In order to provide a partial hedge against these exposures, a substantial amount of the Group's gross borrowings are denominated in foreign currencies. The largest such item is in the USA, where $129 million of core borrowings are denominated in US dollars, substantially offsetting the profits in the USA. Trading foreign exchange exposures, where they arise, are hedged via the spot and forward exchange markets.

The only material fixed rate borrowing of the Group is the £6.2 million 6% Convertible Unsecured Loan Stock. The Group manages its interest rate exposures in order to minimise the interest cost and volatility to the Group.

Current liquidity

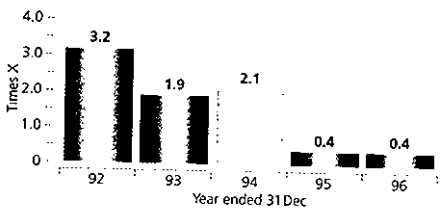
At the end of 1996, the Group had £48.1 million of undrawn credit facilities. Those facilities are in part required for the cyclical working capital needs of the Group and in part provide a margin to finance any unforeseen contingency. Cyclical needs arise both during each month, derived from the media payment cycles in each country, and through the year as periods of high advertising activity seasonally improve the Group's cash position.

The Group has significant cash balances in its international operations. These balances are required primarily to finance the working capital cycles of the individual country operations and, in certain cases, to provide the required level of working capital to allow agencies to buy media on behalf of their clients. There are no material legal restrictions on transfers of funds in excess of those requirements.

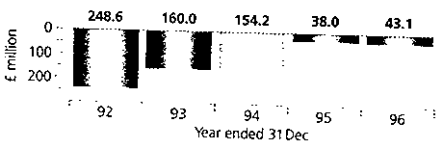
Basis of accounting

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Net debt to EBITD



Net financial liabilities



Worldwide business review

"IT IS *our goal*
TO BE THE
WORLD'S BEST
CREATIVE
COMMUNICATIONS
RESOURCE"

Bates Worldwide

Michael Bungey
Chairman and CEO
Bates Worldwide

CAPTIVATING THE CONSUMER WITH PERSUASIVE, CREATIVE AND CLEAR MESSAGES THAT RISE ABOVE THE MEDIA CLUTTER TO BUILD AND NURTURE BRANDS IS OUR CHALLENGE. BATES' U.S.P. ADVERTISING ENABLES US TO FIND THE SINGULAR POWER OF A CLIENT'S BRAND AND TRANSLATE IT ONE-TO-ONE TO CONSUMERS IN EVERY REGION OF THE WORLD.

In 1996, Bates reaped the benefits from the previous year's excellent new business performance. On a worldwide basis, revenue was up compared to the prior year.

"THE *unique selling* PROPOSITION IS THE FOUNDATION UPON WHICH GREAT ADVERTISING IS BUILT"

Every region within the Bates network reported increased revenues, with Asia Pacific leading the way. Much of this growth can be attributed to increased spending from existing Bates clients such as BAT, Warner-Lambert, Wendy's International, Jamont and Optus Communications Pty. Ltd.

In North America, substantial new business came from existing clients. CPC Baking Business consolidated all of its brands at the agency without a review. Woolworth added Kinney Shoes to Bates' roster. The US Department of Defense renewed its contract for the Joint Recruiting Advertising Program, and added the Defense Re-utilisation and Marketing Service account. Further, the agency won GTE in the Southwest and Midwest, and the Metromedia Entertainment Group. While Bates USA did sustain the loss of one of its oldest clients, Miller Brewing Co., it has an aggressive new business plan to capitalise on its expertise and talent in the category.

In Europe pan-regional wins included the Mobil and Regaine (Pharmacia & Upjohn) accounts. Bates Europe broadened the scope of its Spillers pet food account, adding the business in France, Germany, Sweden and Italy. In Germany, Scholz & Friends added the substantial BMW account, as well as further work from Deutsche Bank. Delacre Biscuits, owned by Campbell's, was a win for Bates in France, Germany and Belgium. In the UK, Bates Dorland added additional business when Halifax merged with the Leeds Building Society, also winning the prestigious Amnesty International account. The only significant loss was the Ericsson Communications pan-European account.

In Asia Pacific growth came from Caltex, Campbell's, Jack Daniel's and Nokia.

Bates' advertising for Wendy's International over the past 8 years has used the founder Dave Thomas' warm, humorous and genuine persona as the core of its highly successful campaigns.

Japan won the Mattel account. In Australia, the Sydney office of George Patterson Bates had its best new business year ever, with $75 million in new billings, including Campbell's subsidiary Arnott's, Optus Vision, Sizzler and Warner-Lambert. George Patterson Bates also diversified into a number of specialist companies. It started a tourism agency, called Navigator, to provide consulting to corporations with interest in the Olympics; AD Town, a retail division, which picked up substantial new billings in its first year; Healthcom Gracie, a healthcare agency; and a recruitment agency, HMA George Patterson, which is already ranked No. 2 in Australia. While the agency did sustain the loss of Nissan, that was offset by its win of the Kia Car account.

In Latin America, where our network of affiliate agencies is one of the fastest growing in the region, Verdino Bates in

Argentina became part of the Wendy's global team, and also added Shell Oil and Xerox. Vale Bates in Mexico gained DHL, Audi and Pharmacia & Upjohn, and Marquez Bates in Panama won Alberto Culver. Ghersy Bates in Venezuela gained the Consul brand from BAT.

Strategic strength was added to the Bates network with the acquisition of 51% of BLGK, one of the top advertising agencies in Johannesburg, South Africa. To broaden our presence in the rapidly expanding Korean market where Hyundai, a key client, is located, Bates acquired 40% equity in Diamond Bates Korea, a joint venture with Diamond Advertising of Seoul, Korea.

A new world order

At the 1996 Bates Worldwide Management Meeting in New York City last March, Michael Bungey outlined an action plan designed to strengthen Bates' place in the top tier of global marketing communications agencies by the year 2000. The plan focused on three goals:

To enhance the culture in which creative excellence is the agency's highest value;

To proclaim the power of Bates' proprietary legacy – the Unique Selling Proposition – and to translate it into action at every Bates agency around the world;

To ensure that the Bates brand is at the forefront of new developments in marketing communications and diversified marketing services.

Strengthening our creative culture

Our goal is to develop further our creative culture with a singular focus on providing our clients with the world's best creative marketing communications. At Bates, we believe that creative excellence is the key to opening doors to business.

Central to this initiative is Bates' Worldwide Creative Board, a consortium of the best Creative Directors from around the network and chaired by John Fawcett of George Patterson Bates in Sydney. The Board's mission is to establish and uphold creative standards at all Bates agencies. It has created a number of initiatives to promote the agency-wide standard of creating 'best of category' advertising for each of our clients. Our creative achievements signal that the strategy is taking hold.

To broaden and intensify the scope of the Board's programs and initiatives, Bates established Global Creative Services, a creative resource centre based in New York. The mission of Global Creative Services is to help manage the execution of a wide range of creative programmes as well as to establish a computerised creative 'infobank' that will gather and store creative work from around the world. All agencies will be able to access and use this work for inspiration and research.

Structural changes at key Bates agencies were initiated to further solidify creative standards and provide added value to clients. In the USA, Bill Whitehead, Chief Executive Officer of Bates North America, reorganised Bates USA into Strategic Business Units, a team-oriented approach designed to create entrepreneurial units with expertise in particular product and consumer categories. In Germany, Scholz & Friends was spun off as an independent network operating alongside Bates so as to preserve certain client allegiances and enhance relationships.

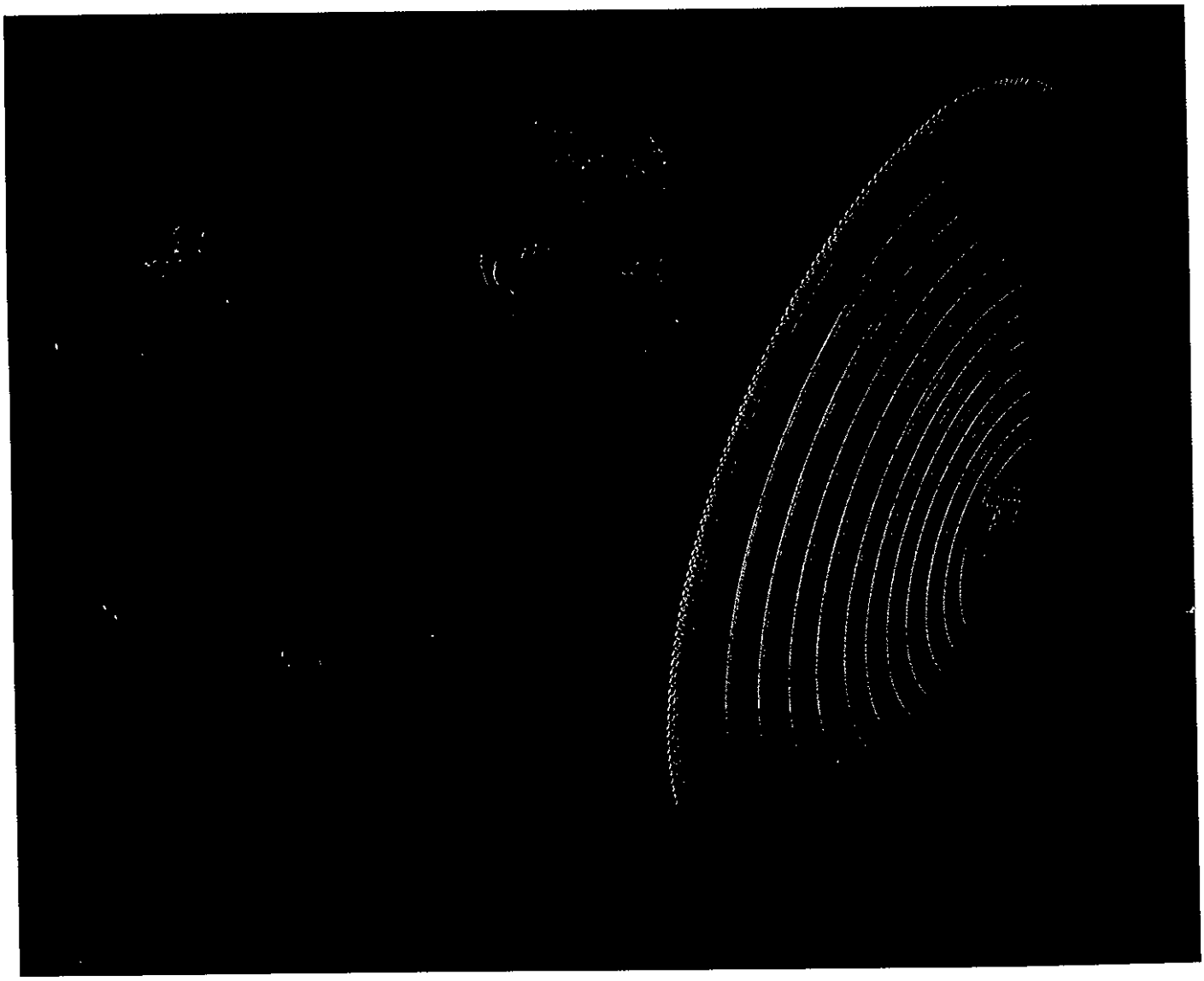
Reflective of our heightened creative profile, Bates agencies won seven silver and bronze Lions at Cannes, in addition to being shortlisted in several categories, and took four top awards at the London International Advertising Awards.

Bates Asia received the prestigious honour of being named the 1996 Asian Advertising Agency of the Year, in addition to three other awards: Best Asian Advertisement of the Year (for Hong Kong Bank), Advertiser of the Year (Nokia), and Best Account Service Person of the Year.

Delvico Bates was the most awarded agency in Spain for the fourth consecutive year. George Patterson Bates in Australia and its retail offspring AD Town won the title of New South Wales Agency of the Year for its outstanding new billings performance and vision.

Bates Belgium was selected as one of the top four agencies in Belgium by the leading Flemish economic newspaper, De Financieel Economische Tijd. Finally Peter Schöning, Chairman of Scholz & Friends, was named Advertising Man of

Optus Communications' highly successful commercial by George Patterson Bates in Australia used Lego to build its various products. Laurel Jackson (Optus) with Chris Mitchell and Hamish McLennan (George Patterson Bates).



the Year by Horizont, a German advertising trade journal. And numerous other accolades were garnered at Bates agencies around the world.

Proclaiming our U.S.P. heritage
At the heart of every great advertising agency lies a set of core beliefs that inspire both its people and its clients. Bates' U.S.P. advertising, coupled with our 'Think Global. Act Local.'® operating philosophy, are what give us our positioning.

The Unique Selling Proposition, or U.S.P., is a core part of Bates' heritage and a proprietary belief which the agency has rededicated itself to embracing throughout the network. The U.S.P. is the foundation upon which great advertising is built – advertising that is relevant, powerful, captivating and single-minded. It provides us with a disciplined approach to ensure a greater probability of consistently producing advertising that is creatively outstanding and effective in the marketplace.

The initiative has been kicked off with a series of regional seminars to educate creatives and account management on its practice and promise of excellence. Training manuals and corollary materials have been produced, and further training will take place in regional markets. Once the U.S.P. training has taken hold internally, an external public relations programme to rebrand Bates as the U.S.P. agency will begin so as to further solidify our competitive positioning in the marketplace.

With its powerful, inherent truths, 'Think Global. Act Local.,' enables our entrepreneurially-spirited agencies to use their local cultures and nuances while taking advantage of the strengths of a strong, consistent global brand.

Focusing on new ways to communicate.
As an agency network, Bates Worldwide is committed to delivering marketing communications solutions to our clients in whatever form will best help build their brands and businesses. We offer services in such diverse media as online, TV, print, cable, satellite, as well as sales promotion, direct marketing, entertainment marketing and presence marketing.

Bates believes that branding some of its own diversified services will lead to greater growth, better quality service and shared resources. As a result the network is launching 141 Worldwide, a global below-the-line sales promotion network. An independent but wholly owned subsidiary of Bates Worldwide, 141 Worldwide is distinctive in that all of its agencies around the world operate with standardised management practices and a unified philosophy.

By creating a global network and taking advantage of common strengths while maximising local nuances, we believe that we can offer our clients a superior product and add value to their businesses. 141 Worldwide grew out of agencies previously affiliated with the Bates network and has 18 offices in 17 countries. It is currently handling assignments for clients such as 3M, BAT, Coca-Cola, the Hong Kong Tourism Association, International Distillers and Vintners (IDV), Perrier, Ralston-Purina, Texaco, Warner-Lambert, and Wendy's International.

In 1997, the network will also brand Bates Interactive and various direct marketing units under the name of

XM (Extended Media). Bates Interactive has grown at various regional centres, attracting new clients and providing added value to existing clients. Since the technology that supports on-line media is so vast and rapidly evolving, many of our interactive centres have already developed specialisations, for example: New York specialises in internet site development; London has expertise in the production of CD-ROMS; Singapore is focusing on the year 2000 and Sydney has a competence in interactive technology. Clients include: Carling Black Label, CBS, Compaq, EDS, Foot Locker, Nokia, Perrier and many others.

Bates Worldwide is committed to using the full range of innovative media to build brands – both those of our clients and our own. With a shared set of operating beliefs and the power of the U.S.P. as a framework for creative communications that persuasively speak to consumers, we believe that our goal of strengthening our position in the top tier will be achieved with creativity, inspiration and teamwork.

Bates Dorland's account team eat, sleep and think Safeway's products. Their ground-breaking advertising for the supermarket chain has helped it to achieve excellent sales in 1996.

BATES WORLDWIDE

World headquarters
The Chrysler Building
405 Lexington Avenue
New York, NY 10174, USA
Tel: (1) 212 297 7000
Internet:
www.bateswww.com

Major clients include
Avis ◆ 12 years
BAT Industries ◆ 29 years
Energizer ◆ 16 years
Hyundai ◆ 12 years
Roche Nicholas ◆ 20 years
Texaco ◆ 12 years
Warner-Lambert ◆ 38 years
Wendy's International ◆ 10 years

Saatchi & Saatchi Advertising Worldwide

Edward Wax
Chairman & CEO
Saatchi & Saatchi Advertising Worldwide

WHAT MAKES SAATCHI & SAATCHI DIFFERENT IS NOT WHAT WE SAY, BUT WHAT WE DO. WE ARE PASSIONATE ABOUT CREATING ADVERTISING THAT IS DIFFERENT - AND THEREFORE NOTICED. WE ARE RESTLESS - ALWAYS CHALLENGING THE WAY THINGS ARE DONE. WE ARE DEEPLY COMPETITIVE. WE SEEK TO WIN BOTH FOR OUR CLIENTS AND FOR OURSELVES.

A world class network

If 1995 was a year of 'extraordinary resilience', 1996 was a year that found Saatchi & Saatchi 'back on track' and moving ahead towards its goal of creating business opportunities both for clients and our network through world-class creative communications.

"SAATCHI & SAATCHI IS A NETWORK *whose people* BELIEVE THAT NOTHING IS IMPOSSIBLE"

To begin, in 1996, Saatchi & Saatchi re-established its position as the most creative agency network in the world through its accomplishments at the prestigious International Advertising Festival in Cannes, earning more top awards (8 Gold Lions) than any other agency network. In fact, for the first time, Saatchi & Saatchi's London office was named 'Agency of the Year' for winning more Gold, Silver and Bronze Lions at this awards competition than any other single agency.

Financially, revenue across the network remained similar to that achieved in 1995, despite the client losses of the previous year. Improved cost management systems resulted in slightly higher operating margins, with further progress expected in 1997. Revenue growth is a key measure of success for the network.

A major focus in 1996 was on improving client service to ensure Saatchi is better able to meet the changing needs of existing clients and to increase our success in winning new business. One consequence of this was a re-engineered approach to doing business. The agency's talents were realigned to better meet clients' needs through the creation of specialised units, such as Saatchi's HealthCare Connection, to focus on consumer healthcare marketing, and Saatchi & Saatchi Vision, to help client companies and brands into the future.

The agency's talents were also realigned to better service clients through an improved management structure. This included the

Knowing kids 'inside out' binds together the Kid Connection's Julie Halpin (left), Chris McKee (centre) and Rachel Geller (right).

appointment of three new Worldwide Account Directors to oversee the network's Procter & Gamble, DuPont and Groupe Danone international businesses.Changes in the senior management group in the latter part of the year further aided the delivery of outstanding client service on an international basis. Patrick Pitcher was moved from Canada and named Chief Executive Officer of Saatchi Asia. Alan Bishop, CEO of Saatchi North America and Jennifer Laing, Chairman of Saatchi UK swapped roles, bringing further cultural and management alignment to the network. Finally, Bob Isherwood of Saatchi Australia was promoted to the position of Worldwide Creative Director, to maintain and ensure the high creative standards which have long been central to the network's success.

Clients noticed: General Mills, Gillette, Groupe Danone, Johnson & Johnson and Toyota were among a list of clients that expanded Saatchi's global assignments. Enhanced network co-ordination also aided Saatchi in its new business efforts where the payoff included the addition of blue-chip clients such as Kodak (global business-to-business communications),

Reynolds Metals (USA, Latin America and China), the pan-European assignment for Schweppes and Reebok (Southeast Asia). These account wins helped offset the loss of Fuji and Reckitt & Colman as well as the decrease in business from Hewlett-Packard.

For the second year in a row, Saatchi & Saatchi was named the 'most admired network in Europe' in Media & Marketing Europe's annual poll of European marketing directors. Saatchi & Saatchi was among the fastest movers in new business, jumping from seventh to second in M&M Europe's annual new business round-up.

Passionate about advertising

To be successful, Saatchi & Saatchi believes the network must create advertising that is different, and therefore gets noticed. It must also deliver proven business results. Saatchi & Saatchi delivers on both criteria.

For example, in 1996, Saatchi & Saatchi was named 'agency of the year' in the UK based on its performance at Cannes. It was also named 'agency of the year' in Brazil. Campaign magazine described Saatchi Singapore as a 'creative hot shop.' Saatchi New Zealand developed the 'commercial of the year' in that country. Saatchi & Saatchi's Team One office dominated Southern California advertising at the Belding Awards, the most prestigious awards show for creative excellence in that region.

Saatchi & Saatchi campaigns deliver results. In this year's Campaign magazine Direct Awards, Saatchi & Saatchi won Gold for its efforts on behalf of the British Army. In complimenting Saatchi, the magazine said: 'In every market there are two indications that advertising is working: results and emulation by the competition. Saatchi & Saatchi's integrated campaign for the Army has achieved both in spades.'

What's more, clients have bestowed on the network some of their highest honours. Among them: General Mills awarded Saatchi its 'Chairman's Award' for Brand Stewardship for work done on the Kix brand. Since the start of the Saatchi created 'Breakfast Club' campaign in 1987 Kix increased its market share by more than 60%.

In China, Procter & Gamble presented Saatchi with it 'World Class Copy' awards for advertising on behalf of Safeguard, Head & Shoulders and Oil of Ulan.

Saatchi & Saatchi Canada grabbed the worldwide top spot, with a Grand Prix at Toyota's own International Advertising Awards.

Restless innovation

Saatchi & Saatchi is a restless agency – always challenging the way things are done. The network is constantly searching for new ways to help clients identify new market opportunities.

In 1995, the network reorganised around areas of expertise in order to align better the agency's talents with client needs. In 1996, the network expanded these 'centres of excellence' in business-to-business communications, youth marketing, healthcare marketing and future planning. The results were striking: Kodak awarded Saatchi & Saatchi two significant pieces of business, with combined annual billings which are

expected to be approximately $100 million. Saatchi & Saatchi Business Communications was named to lead the global assignment for Kodak Professional, Kodak's professional and printing imaging division. In addition, Saatchi's Kid Connection was asked to implement a global youth marketing assignment, designed to build Kodak brand loyalty among this important target group.

Similarly, Johnson & Johnson's McNeil Consumer Products Company acknowledged the success of Saatchi & Saatchi's HealthCare Connection by assigning the unit to handle the launch of its new over-the-counter allergy nasal spray, Nasalcrom, as well as its Nicotrol smoking cessation line of products.

In London, Saatchi & Saatchi Vision was unveiled, offering expertise in the areas of interactive media, 3-D (the first agency in the world to provide clients with a comprehensive 3-dimensional service) and

Saatchi & Saatchi Healthcare's co-managing directors, Dick Anderson (left) and Tom Lom test the slogan: 'You can be heartburn free with Pepcid AC'.

a specialist unit to capitalise on business opportunities presented by the Millennium.

Increasing focus is also being given on how to harness more efficiently the knowledge of the human capital within the network. To this end, a new position – Worldwide Director of Client Service Applications – was created. Its mission: to turn Saatchi's investment in new technology and software into solutions that benefit clients. Already these efforts have paid off – Saatchi will shortly announce the development of a proprietary and highly sophisticated image archive and information database. 'Think of it as a 24-hour a day brand manager,' because through this electronic management tool, the agency can instantly access, anytime and anywhere, all relevant brand information as well as track all print projects seamlessly.

With its long list of products primarily purchased by women, Saatchi & Saatchi took the lead in this area by fielding a landmark qualitative study called 'Women on Women on Advertising.' Since women scrutinise images of themselves in advertising much more than men do, the objective of this study was to gain a better understanding of how women react to the way they are depicted in advertising. In fact, there is much evidence from quantitative surveys that women's dissatisfaction with advertising seems to be increasing in spite of the efforts made by advertisers to reflect changing cultural beliefs and the growing number of women in advertising.

Through the use of cultural, psychological and semiotic research, it was revealed that advertisers have a great opportunity to link their brands to the changing role of women. In so doing, they can ensure that identity messages work with product messages to create an even stronger bond between their customers and the brand.

A second important study initiated jointly by Saatchi & Saatchi and Zenith Media Services explored the growing phenomena of the Internet and the opportunities that 'Cybercommunities' present for online advertisers. This study marked a follow-up to 1995's previously published Saatchi/Zenith findings on 'The Interactive Consumer' and, once again, underscored Saatchi & Saatchi's knowledge and leadership in the growing area of interactive marketing.

Competitive for clients

Saatchi & Saatchi is a network with a fixation on winning – both for its clients and itself. One way to increase success is through shared learning, which is an important part of the Saatchi global culture. Learning from the success of campaigns for clients in one market allows the network to build upon this learning in other parts of the world.

Such has been the case where, on the strength of the network's performance in the USA, Johnson & Johnson/Merck asked Saatchi & Saatchi to handle the introduction of Pepcid AC into both Europe and Latin America (Saatchi helped Pepcid AC become the number one stomach acid controller within a month of its US launch). Similarly, Gillette consolidated its North

America Right Guard business at Saatchi New York following more than 10 years of handling the brand in the UK. New assignments were also won from Toyota, building on continued growth in the market. For example, Saatchi & Saatchi's successful introduction of the Toyota RAV4 sport utility vehicle into key markets in North America, Europe and Asia Pacific utilised a similar marketing approach around the world and earned it the distinction as one of Advertising Age's 'global success stories' of the year.

Passionate. Restless. Competitive

To sum up, Saatchi & Saatchi is a network whose people believe that their jobs are their vocation, and for whom nothing is impossible. Events in 1996 testify to Saatchi & Saatchi's core value principles: passionate about advertising; restless – always challenging the way things are done; and deeply competitive – seeking to win both for clients and the agency's people. As such, the outlook for Saatchi & Saatchi Advertising in 1997 is bright.

Saatchi Pacific's Joe McDonagh (left), Ian Beavis (centre) and Joe Cronin (right) find out what keeps Toyota's RAV 4 'the car in front.'

SAATCHI & SAATCHI ADVERTISING WORLDWIDE

World headquarters
375 Hudson Street
New York, NY 10014, USA
Tel: (1) 212 463 2000
Internet:
www.saatchi-saatchi.com

Major clients include
DuPont ◆ 52 years
General Mills ◆ 73 years
Groupe Danone ◆ 66 years
Hewlett-Packard ◆ 20 years
J&J/Merck ◆ 28 years
Procter & Gamble ◆ 74 years
Toyota ◆ 21 years

Cliff Freeman and Partners

COMPETITION IS WAR. A WAR WHERE, IF YOU HAVEN'T RISEN ABOVE THE FRAY, CHANCES ARE YOU'LL BE CONSUMED BY IT. A WAR WHERE THE ONLY REFUGE IS TO WIN. THAT'S WHAT OUR CLIENTS HAVE DONE – WIELDING WEAPONS THEIR COMPETITORS COULD NOT MATCH – ADVERTISING CAMPAIGNS FROM CLIFF FREEMAN AND PARTNERS.

1996 was a historic year for the agency as it significantly increased revenues by broadening its client base, adding The Coca-Cola Company (Cherry Coke, Coca-Cola 2-litre bottle, and Fanta), Ameritech, one of America's leading telecom firms, and Pep Boys, its largest auto-parts-and-service retailer.

Cliff Freeman & Partners' 'bounties of war' included the agency winning more than 100 awards during 1996. Cliff Freeman pictured.

The agency also enhanced its strong creative reputation, winning more than 100 awards including: Gold and Silver Lions at Cannes, Best of Show at the ADDY and ANDY competitions, 12 Clios, 5 One Show TV Pencils, and Agency of the Year honours from Advertising Age's Creativity Magazine.

Cliff Freeman and Partners' successful approach to advertising is driven by a simple truth: Consumers don't care about ads. They ignore most of them, rendering the advertisers' dollars wasted. And that, to this agency, is a crime.

So the agency creates campaigns that compel the consumer to care. Campaigns that engage them, that capture their attention and hold it. Campaigns developed in a culture of craftsmanship where everyone approaches their work with a common intensity and commitment to excellence. Campaigns that help clients to rise above the fray.

Clients like Little Caesars, which exploded from a small chain to become one of America's leading restaurant companies; Staples, whose sales growth rebounded from nearly-stalled to among the best in retail; and Coca-Cola, whose single 2-litre bottle ad was neck and neck with one other as the most popular spot to run during the 1996 Olympics, despite having aired just once.

It's a simple success formula: create campaigns that engage consumers, they reward the advertiser, who rewards the agency. It provided the spark for the agency's creation in 1987 and continues to fuel its growth in 1997 and beyond.

CLIFF FREEMAN AND PARTNERS

Headquarters
375 Hudson Street
New York
NY 10014
Tel: (1) 212 463 3200

Major clients include:
Allied Domecq
Ameritech Cellular Services
The Coca-Cola Company
General Mills
Little Caesars
Pep Boys
Staples

Zenith Media Worldwide

John Perriss
Chairman
Zenith Media Worldwide

ZENITH MEDIA WORLDWIDE IS A LEADING SPECIALIST MEDIA SERVICES AGENCY. OUR MISSION IS TO DELIVER SUSTAINABLE COMPETITIVE ADVANTAGE TO CLIENTS. WE DO THIS BY DELIVERING MEASURABLE PERFORMANCE WHICH BENCHMARKS OUR PERFORMANCE VERSUS THE MARKET. IN A WORD ZENITH IS ACCOUNTABLE.

1996 saw Zenith achieve good revenue growth and the continued geographic development of its network, particularly in Europe and Asia Pacific.

"Smart efficiency

IS THE ESSENCE OF THE ZENITH PROPOSITION, AND IS ROOTED IN COMPLETE

SERVICE

ACCOUNTABILITY"

The US operation entered its second year with a major new client appointment to handle the broadcast media buying for Bell Atlantic. This was followed through the year with new business wins from Best Foods and Century 21 amongst others. Towards the end of 1996 Bates USA sustained the loss of Miller Brewing Co. which resulted in our only significant loss in this region. Occurring late in 1996 this loss will not impact on revenue until 1997. Zenith is fully focused on further developing business in the region from both new and existing clients.

In the complex area of local 'spot' broadcast, the introduction of new proprietary systems and upgraded staffing in the US operating unit, headed by Bonita LeFlore, was well received by clients. A media planning unit led by Janice Clements, was also started in order to service the growing number of direct client assignments requiring this resource. During 1996 Bill Grimes resigned as Chief Executive of the US operation.

In the UK, Zenith enjoyed another successful year which included the consolidation of the Kingfisher plc business into Zenith and the addition of BMW as a client. The increasing demand for specialised direct response skills led us to launch Zenith Direct as a stand alone division. Zenith Direct, led by Claire Myerscough, has made a strong start and has been welcomed by clients. At the start of 1997, Graham Duff was appointed CEO designate following the resignation of Christine Walker as Zenith UK's Chief Executive.

In the rest of Europe, Zenith won additional business from Bristol-Myers Squibb and was subsequently awarded additional related business in the USA and Asia Pacific. Other pan-European wins

included Groupe Danone, Mexx, Monroe, Pharmacia & Upjohn and Puma. Major national new business wins in Continental Europe included Campbell's in Germany, CPC in Italy, Delacre in France, Grundig in Italy and Mars Inc. in both Czech Republic and Sweden. The only significant loss in the region during the year was the Visa pan-European account.

The European network was strengthened with new affiliate offices in Israel, Romania and Turkey. Zenith's sister network, Equinox Communications also expanded to Belgium, France and Italy. The Zenith management team in the European region was strengthened by the appointment of Arcangelo Di Nieri as CEO in Italy and Frank Klockenhoff as Managing Director in Germany.

'Peerless prognosticator.' Zenith Media's Betsy Frank is recognised as the industry's most sought after commentator 'on television.'

Asia Pacific is the fastest growing advertising market in the World. Encouraged by the demand from our clients, Zenith established a regional headquarters in Hong Kong, headed by Antony Young as CEO, to implement plans to expand our network in the region. The first of the regional operations were opened towards the end of 1996 in Hong Kong headed by Maggie Choi, and mainland China, headed by Lee Li, with offices located in Beijing, Guangzhou and Shanghai. Clients, media staff and resources from both the Bates and the Saatchi networks were consolidated into these operations to create the largest media services operation in this market.

Early in 1997, offices in Australia and Singapore were opened. Other openings in Asia are planned in 1997 to reinforce our position as the world's leading media network.

Smart efficiency

As an ever-increasing and substantial cost to advertisers, media is subject to closer scrutiny and, unsurprisingly, a greater expectation of their return on investment to be quantified. Media's return on investment can be directly measured by the cost, size, composition and quality of the audience it reaches.

Zenith believes media performance should be measurable. Whether that is beating the buying targets set, adding value to media planning with strategic insight and imaginative thinking, or quantifying a campaign's media performance accurately and effectively.

This is the essence of the Zenith proposition. Zenith calls it Smart Efficiency and it is rooted in complete service accountability. Accountability manifests itself in all areas of service to clients. Indeed, for a growing number of clients Zenith's remuneration is linked in part to their performance.

Zenith's ethos is one of 'smart people with smart tools.' Zenith has always invested significant resources in training and motivating staff and consequently we retain some of the best people in the business. Increasingly, however, information technology is catching up with human resources and training as the critical investment area for Zenith. During 1996 we continued to expand this important asset base under the ZOOM branding. ZOOM represents Zenith's commitment to

information technology and proprietary systems development. It falls into three key areas: infrastructure, communication and proprietary media systems.

Improvements to basic IT infrastructure have resulted in both effectiveness and efficiency gains, primarily from the standardisation of hardware and software platforms, including desk-to-desk e.mail, across the Zenith network.

Zenith has pioneered Intranet communications using password protected Web sites to share and disseminate information both internally and with clients. Zenith has also received wide acclaim for its Internet 'gateway' site which attracted over 250,000 visits during the year.

Finally the launch of proprietary media systems, enabling us to process, manipulate and analyse data more efficiently than before. This has been a major investment for the network as it is rolled out to Zenith's offices worldwide.

These media system initiatives combined with the expansion of the network and quality of people presents a compelling and powerful media offering, enabling Zenith to exploit the media efficiency gains available and to continue to deliver competitive advantage to clients.

ZOOM represents Zenith Worldwide's commitment to information technology and proprietary systems. Zenith Worldwide's Frank Harrison and Richard Bateman (foreground).

Zenithmedia

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Tel: (44) 171 224 8500
Internet:
www.zenithmedia.com

Major clients include:
BAT
Bell Atlantic
BMW (GB)/Rover Group UK
Darden Restaurants
Halifax
Kingfisher
Kraft Jacobs Suchard

Rowland Worldwide

ROWLAND ASSISTS ORGANISATIONS TO SURMOUNT BUSINESS CHALLENGES THROUGH STRATEGIC COMMUNICATIONS PROGRAMMES. ROWLAND'S PROPRIETARY SYSTEMS HELP CLIENTS REACH KEY AUDIENCES AND SPUR THEM TO TAKE DESIRED ACTIONS.

Rowland's pioneering work is being widely recognised within the industry. In 1996, Rowland was one of the most highly-decorated communications companies in local, national and international competitions, including receipt of the Golden World Award by the International Public Relations Association.

"WE HELP CLIENTS REACH *key audiences* AND SPUR THEM TO TAKE DESIRED ACTIONS"

A number of initiatives were undertaken in 1996 to strengthen the company's financial performance and provide greater resources to grow its core business centres. Early in the year, the company reorganised operations into five regional centres and consolidated or closed several smaller operations which improved net margins. Combined with more than $10 million in revenue gained from new business wins across the network, group profit increased significantly for the year.

A new executive management board was also formed, consisting of the group president and regional chief executives. The senior executives of the company are all leaders in their markets, have long tenure with Rowland and provide the network with a breadth of experience in core communications disciplines.

The new business generated during the year included a gratifying level of extensions and add-ons to existing client programmes. Significant new programmes were awarded by DuPont and Canon in the United States, Procter & Gamble in the UK, and several new multi-year assignments by the European Commission in Europe and Japan.

In Australia, the company continued to extend its lead in the financial communications market, advising on a number of high-profile flotations, mergers and takeovers. To support the expansion of operations in China, the group established a liaison office in Beijing, which complements its office in Shanghai.

Over the past decade, the emergence of new communications technologies and media has ushered in a new era in public discourse. The profusion of multiple and instantaneous communications vehicles has profoundly altered the traditional channels and methods of disseminating and interpreting information.

This revolution has affected the PR business, where programmes that supported the marketing of products and services were the underpinning of the industry. Rowland has recognised that communications no longer follow the sequential, linear sequence that has long dominated the print and broadcast era. Individuals and organisations around the world are struggling with how to harness the new media and move from merely affecting opinion or awareness, to compelling audiences to take or support actions beneficial to their interest.

The company's proprietary 'Point-of-Entry Communications' system provides clients with the ability to identify their key influence groups and how their interaction and influence impact client initiatives. This methodology enables Rowland to create managed communications programmes that prioritise communications strategies and tactics to achieve results that support business objectives while maximising effectiveness and efficiency. Group clients such as DuPont, Canon U.S.A. and Mobil have mounted programmes based on this distinctive system, with results that have had measurable impact.

In 1997, 'Point-of-Entry Communications' will be introduced throughout the Rowland network, supported by an intensive training programme. Other new products and methodologies are expected to be introduced in the upcoming year, along with internal developmental programmes, including skills transfer and cross-border staff training.

'Point-of Entry Communications' helps to identify clients' key audiences and enables the agency to create prioritised communications strategies that meet clients' business objectives. Mark Weiss, CEO Rowland US, and senior US executives.

THE ROWLAND COMPANY

World headquarters
1675 Broadway
New York
NY 10019, USA
Tel: (1) 212 527 8800

Major clients include
- Canon
- DuPont
- European Commission
- Johnson & Johnson
- Mobil
- Procter & Gamble

Siegel & Gale

SIEGEL & GALE WORKS WITH LEADING CORPORATIONS TO CLARIFY, SIMPLIFY AND UNIFY THEIR COMMUNICATIONS TO PROJECT A DISTINCTIVE VOICE ACROSS ALL MEDIA AND CUT THROUGH THE COMPETITIVE NOISE.

In 1996, Siegel & Gale continued to generate double digit revenue growth fuelled by the dramatic expansion of interactive media services. The firm also made major investments in its infrastructure, including a new corporate headquarters at 10 Rockefeller Plaza in New York City that incorporates advanced information technology systems and space for expanding sales and marketing staff. These investments will help the firm meet its aggressive growth objectives.

"SIEGEL & GALE CONTINUES TO *maintain leadership* IN THE CORPORATE IDENTITY BUSINESS"

Among other interactive projects in 1996, Siegel & Gale created three major corporate Web sites, American Express Financial, (http://www.americanexpress.com/direct), which allows customers to get expert financial advice and invest online; Kodak Professional(http://www.kodak.com/ppiHome/kodakProfessional/kodakProfessional.shtml), which provides a valuable resource for professional photographers; and Ernie™ (http://ernie.ey.com), Ernst & Young's fully interactive service, which provides small businesses with answers to pressing business management questions.

The firm continued to maintain its leadership in the corporate and brand identity business by building and deepening its long-term relationships with Kodak, Caterpillar, EDS, Genesis, Chubb, British American Tobacco, Royal Mail, Lloyds TSB, Farmers Insurance and S.D. Warren, while attracting an array of new clients in the US, Europe, and Asia.

In 1996, Siegel & Gale created the following: a new identity and positioning for Golden Books Family Entertainment (formerly Western Publishing); repositioned A.T. Kearney, the multinational management consulting firm acquired by EDS; created a global communications strategy for Cemex, one of the world's largest cement companies; developed a nationwide branding strategy for JCPenny; repositioned Barnett from being a local bank to becoming a national financial institution; developed an identity for PlusGSM, a cellular phone service in Poland; and created a publication for Solidere, the company tasked with rebuilding the centre of Beirut.

Several new names for high-profile clients were introduced in 1996: World Avenue, the name of IBM's Internet shopping site; AT&T Easy Commerce, the name for AT&T's Internet services division; Call Sciences, the name for a new telecommunications services company; and AppliedTheory, the name for a leading Internet company formerly called NYSERnet.

In 1996, Siegel & Gale's Simplified Communications group expanded upon

the simplified billing statement it created for AT&T by developing statement strategies for bundling local, long distance, wireless, paging, and Internet access on monthly statements. The group also worked with AT&T's Universal Card division on credit card statement strategies and online customer care; developed a simplified auto lease agreement for Mercedes-Benz; and completed projects for some exciting new clients including Merrill Lynch, Deutsche Bank, and UPS. The long-term relationship with Royal Mail led to the development of a comprehensive electronic directory of its products and services.

During the past 28 years, Siegel & Gale has evolved from a US-based corporate and brand identity boutique to an international strategic communications firm that leverages clients' communications budgets to project a clear identity, distinctive positioning, and consistent messages.

There are several components of the firm's culture, perspective, and skill base that enable Siegel & Gale to create truly integrated communications programmes. At the core is a management team that is trained to provide clients with compelling strategies that drive the behaviour, content, and style of their communications.

A long-term commitment to clarity of expression and simplification converting complex business, legal, medical, and government language to user-friendly, accessible, and functional communications, permeates the firm's work.

The firm is dedicated to innovation, the creation of new services, investing for the future, and the hiring of spirited people who push the envelope. Siegel & Gale spawned the highly successful language simplification business, and created the Corporate Voice™ concept, which has been the driving force behind its corporate and brand identity business and provided the catalyst for the dramatic growth of the interactive media business.

Siegel & Gale created a multimedia postcard site for Kodak called 'Picture This.' It has been responsible for increasing hits from an average 400,000 to over 1,000,000 per day.

Siegel & Gale

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Internet:
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Major clients
American Express
Caterpillar
Chubb
EDS
Ernst & Young
Genesis
Kodak
S.D. Warren

Facilities Group

THE FACILITIES GROUP WAS SPECIFICALLY CREATED TO OFFER CLIENTS A QUICKER, MORE EFFICIENT SERVICE BY MAXIMISING THE POTENTIAL OF NEW TECHNOLOGY IN THE MANAGEMENT OF ADVERTISING PRODUCTION PROCESSES.

1996 was a good year with profits and revenue up indicating a return to growth following the difficulties of 1995.

The design division saw revenue increase with new projects from Midland Mainline, 3i Plc, the National Westminster Group , Belfast City Council and CGI.

Revenue in the press division remained stable. Our marketing department was expanded with the specific aim of increasing levels of new business from outside the Group.

The Facilities Group provided Puma with outstanding sales literature and web site. Hugh Lorimer and Sally Pasfield.

The television division saw overall post production revenues in line with those achieved in 1995, but significant revenue growth was shown at Winkle Films, our production company, in its first full year of operation. Television is seen as an area of growth opportunity.

In the first full year of operation Red Kite, specialising in new media production, managed to break even. The unit has now developed an impressive portfolio, including significant projects for Puma and Hewlett-Packard, which will help it to attract additional business during 1997.

The Facilities Group differentiates itself from its competitors by the breadth of the services it offers – no other single company in the UK has such a comprehensive range of production services.

A total of 235 employees are split into three areas of operation: design, press and television production. Each of these areas is subdivided further into small specialist divisions. This ensures that a request for a presentation slide or illustration is handled with the same care as a complete brochure, or the production and co-ordination of a European advertising campaign.

The single site nature of The Facilities Group reduces production times to an absolute minimum, whilst adding a high level of security to clients' projects.

The Facilities Group continues to take advantage of new technologies to better meet the demands of its clients.

THE FACILITIES GROUP LIMITED

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Internet:
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Group companies:
B&W Repro, First Base
JDA, Magic Touch
Red Kite, Sector Light
Saatchi & Saatchi Design
Stills, Triangle, Trucolour
Typehaus, Winkle Films

HP:ICM

HP:ICM IS ONE OF THE WORLD'S LEADING SPECIALIST COMMUNICATIONS AGENCIES. WE PROVIDE CREATIVE AND PRODUCTION CONSULTANCY IN LIVE EVENTS, EXHIBITIONS, FILM, VIDEO, INTERACTIVE MULTIMEDIA, DESIGN AND PRINT.

During 1996 HP:ICM continued to rank as the leading specialist communications agency.* We provide communications and creative consultancy combined with first class production expertise to meet clients' individual requirements. Few companies can match our experience of communicating with multi-language, multi-cultural groups. In 1996 some 70% of the business was of this kind and projects were undertaken worldwide.

HP:ICM's award winning exhibition design dramatising Nokia's theme 'Connecting People.'

*source Televisual magazine survey.

Many new projects were won from clients including British Aerospace, Burger King, General Motors, Halifax Building Society, Marks & Spencer, Nokia and Whirlpool. The company won 4 awards for proven effectiveness in exhibition design and another 4 awards for video programming.

HP:ICM's business performance is cyclical, due to client spending patterns, and profit in 1996 was down from 1995. However, with several major projects underway, 1997 promises to be a better year for the business.

At a time when enterprises are undergoing transformation, we create the conditions in which they can thrive. We mobilise enthusiasm for new ideas and products. We bring brands to life. We build corporate cultures.

Our clients are some of the world's leading organisations. Our audiences are those who matter most: employees, customers, business partners, shareholders and legislators.

Together we craft the communications strategy and then we design the smartest solutions. Solutions that are fresh and different. Solutions that give new life and energy to the messages. We approach each new brief with an open mind.

The end product might take many forms. It might be a permanent visitor experience, a corporate TV network, a global cultural change programme, a trans-continental roadshow, a multi-media training programme or just a video.

Though each problem is unique, some things are constant: meeting objectives, impeccable production values, excellent project management, adherence to budget, and learning from results.

HP:ICM

Headquarters
53 Frith Street
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Tel: (44) 171 434 0929

Major clients
BAe, DTI, General Motors
Halifax, Marks & Spencer
MOL, Nokia, Whirlpool

National Research Group

NRG IS A LEADING MARKET RESEARCH FIRM SERVICING THE MOTION PICTURE INDUSTRY. IT IS NRG'S MARKET KNOWLEDGE, PROPRIETARY SYSTEMS AND GLOBAL SPREAD THAT MAKES IT THE KEY PLAYER IN THIS FIELD.

National Research Group had a good year in 1996 showing growth from its core research and consulting services devoted to movies for theatrical release, and covering the non-movie markets, most notably home video, television and theme parks. The firm also continued to grow its geographical operations. Additionally the company grew its research and consulting services.

The National Research Group provides market research and consultancy services to the motion picture industry. The main research services are devoted to the marketing of movies for theatrical release. Recently NRG has widened the scope of its services to meet an increasing demand for market research into home video, television and theme parks.

NRG provides important research for the movie industry in the world's major markets.

The National Research Group regularly surveys the world's major markets on behalf of its clients – the major studios, distributors and producers. NRG's years of experience and a substantial data bank in the theatrical entertainment field allow it to tailor its research and consulting services to specific demographic, sociographic and geographic requirements.

Research is accomplished through surveying moviegoers, video users and other entertainment customers, as well as the general public, using a number of proven methods including: telephone and household surveys; exit polls, recruited audience surveys, focus groups and one-on-one interviews. Research data is processed using a number of proprietary computer systems and projection models developed in-house by NRG. Amongst others, these include the 'Cinesys', an on-line information database encompassing data drawn from tens of thousands of past NRG studies, and 'Perspective', an ongoing poll of moviegoers which provides an insight into their interests, tastes, and behaviour.

All NRG surveys complement each other so that the accumulated data yields even more accurate and more complete information than individual studies.

THE NATIONAL RESEARCH GROUP

Headquarters
5900 Wilshire Boulevard
Los Angeles, CA90036, USA
Tel: (1) 213 549 5000

The National Research Group has major clients throughout the film industry

Financial statements

"THE GROUP'S

financial results

ARE A QUANTIFIED

MEASURE OF OUR

SUCCESS

IN MEETING OUR

QUALITATIVE

GOALS"

Directors

Executive Directors

Charles Scott (48) *Chairman*
Charles Scott joined the Group as Finance Director from IMS International Inc. in January 1990. He became Chief Operating Officer in 1991 and Chief Executive Officer in 1993. In January 1995 he was appointed Chief Executive Officer and Acting Chairman. In July 1995 he was appointed Executive Chairman. He is non-executive Chairman of Robert Walters plc, and is a non-executive Director of adidas AG.

Michael Bungey (57) *Director*
Michael Bungey joined the Group in 1984. In 1988 he became Chairman and CEO of Bates Dorland and Bates Europe. In 1993 he was appointed President and Chief Operating Officer of Bates Worldwide, Chief Executive Officer in 1994, and Chairman in 1995. He was invited to join the Board of Cordiant plc in January 1995.

Robert Seelert (54) *Chief Executive Officer*
Robert Seelert joined Cordiant as Chief Executive Officer in July 1995. He previously worked for General Foods Corporation where he was President and Chief Executive Officer, Worldwide Coffee and International Foods. He was also President and Chief Executive Officer for Topco Associates Inc. and the Kayser Roth Corporation. He is a non-executive Director of The Stride Rite Corporation and Senior Tour Players Development Inc.

Wendy Smyth (43) *Finance Director*
Wendy Smyth joined the Group in 1982 and was appointed Regional Finance Director in 1984. She was Finance Director of Saatchi & Saatchi Advertising International from 1986-89 and subsequently Finance Director of the Group's Communication Division. In July 1991 she became Chief Financial Officer and was appointed to the Board of Cordiant plc in April 1993 as Finance Director.

Edward Wax (60) *Director*
Edward Wax has spent cumulatively 29 years with Saatchi & Saatchi Advertising in the US in a number of senior positions. He was appointed Chairman of Saatchi & Saatchi Advertising Worldwide in 1991 and Chief Executive Officer of Saatchi & Saatchi Advertising Worldwide in 1992. He was invited to join the Board of Cordiant plc in January 1995. He is a non-executive Director of Golf Trust of America Inc.

From Left to Right:

Robert Seelert,

Michael Bungey,

Charles Scott,

Wendy Smyth,

Edward Wax.

Non-executive Directors

Dudley Fishburn (50) *Joined Cordiant 1996*
Dudley Fishburn is Associate Editor of the Economist and Treasurer of The National Trust. He was Conservative M.P. for Kensington (1988–1997). He is Chairman of the trustees of The Open University and a trustee of The Prison Reform Trust. He is a non-executive Director of Household International Inc. and Business Post plc.

The Hon. Clive Gibson (49) *Joined Cordiant 1991*
Clive Gibson is Principal of Perseus Capital. He was previously a Director of St. James's Place Capital plc and RIT Capital Partners plc and other companies in the J Rothschild Group. Prior to this he was a member of the Executive Committee of Pearson plc and served on the boards of the Pearson Group's publishing interests, including The Financial Times, The Economist, Longman Group, and Penguin Books.

Professor Theodore Levitt (72) *Joined Cordiant 1990*
Professor Levitt is Edward W Carter Professor of Business Administration, Emeritus, at Harvard University Graduate School and serves on the board of Sandford C. Bernstein Funds, Inc. in the US. He is also the author of numerous articles and books on economics, politics, management and marketing.

Thomas Russell, PhD (65) *Joined Cordiant 1990*
Dr. Russell was Chairman of IMS International, Inc. until its acquisition by The Dun & Bradstreet Corporation in 1988. From 1988-92 he was Chairman of Applied Bioscience International, Inc. He is a Director of adidas AG and Uniroyal Technology Corporation, Inc. He currently serves as Chairman of EMCORE Corporation, a US semiconductor company.

Sir Peter Walters (66) *Joined Cordiant 1994*
Sir Peter Walters is Chairman of SmithKline Beecham plc, Deputy Chairman of EMI Group plc and Deputy Chairman of HSBC Holdings plc. He was Chairman of BP and Chairman of Blue Circle Industries plc. He is Chancellor of the Institute of Directors, a Trustee of the Institute of Economic Affairs, Chairman of the Trustees of the Police Foundation and a member of the Advisory Board of the LEK Partnership.

From Left to Right:

Peter Walters,

Clive Gibson,

Theodore Levitt,

Thomas Russell,

Dudley Fishburn.

Corporate governance

The Board is a strong supporter of good corporate governance. The Company continues to comply, and has done so throughout the year, with the Code of Best Practice ('the Code') included in the Cadbury Committee report on the financial aspects of corporate governance. The Board or a sub-committee of the Board, other than the Board Committees referred to below, met on 16 occasions in 1996. The executive Directors also met on an ad hoc basis to consider day-to-day administrative matters of the Group not requiring the immediate attention of the Board in full meeting.

On page 63 the Directors confirm their responsibilities in relation to the preparation and presentation of the accounts. Set out below are details of the Group's systems of internal control and the various Board Committees which meet regularly to oversee key aspects of corporate governance.

Internal Control

The Board is responsible for the Group's systems of internal financial control. The systems are designed to provide reasonable assurance that:

- assets are safeguarded;
- transactions are authorised and recorded properly;
- material errors and irregularities are either prevented or detected with the minimum of delay;
- proper accounting records are maintained; and
- the financial information used within the business and for publication is reliable.

However, any system can only provide reasonable, and not absolute, assurance against material mis-statement or loss.

The key procedures that have been established and designed to provide effective internal financial control are:

- the organisational structure which has clearly defined lines of responsibility and delegation of authority;
- the financial reporting and information systems which include: an annual three year plan; a comprehensive budget comprising of cash-flow, capital expenditure and profit and loss accounts; and monthly reports comparing the actual and forecast results against the annual budget and prior year's results. Significant variances are reviewed by the executive management and action is taken as appropriate. The Board reviews the budget annually and the management information every month;
- common management standards which are documented in the Group Policies Manual. Compliance is monitored by Group and divisional management as well as through self-certification by the local executives;
- the centralised control of the Group's financial, tax, treasury, legal and secretarial functions staffed by appropriately qualified individuals who draw on external professional advice;
- The Audit Committee, comprised solely of non-executive Directors, which oversees executive management's responses to identified control weaknesses.

The Directors confirm that they have reviewed the effectiveness of the systems of internal financial control during the financial year.

Review report by KPMG Audit Plc to Cordiant plc on corporate governance matters

In addition to our audit of the financial statements, we have reviewed the Directors' statements above and on page 22 on the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the Listing Rules and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with the disclosure requirements of the Listing Rules 12.43(j) and 12.43(v).

Basis of opinion

We carried out our review in accordance with the relevant guidance issued by the Auditing Practices Board. That guidance does not require us to perform any additional work necessary to express a separate opinion on the effectiveness of either the Group's system of internal financial control or corporate governance procedures, or on the ability of the Group to continue in operational existence.

Opinion

With respect to the Directors' statements on internal financial control above, and going concern on page 22, in our opinion the Directors have provided the disclosures required by the Listing Rules and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain Directors and Officers of the Company, and examination of relevant documents, in our opinion the Directors' statement above appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review by the Listing Rules.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
26 March 1997

Audit Committee

The Audit Committee consists exclusively of non-executive Directors. The members are The Hon. Clive Gibson (Chairman), Dudley Fishburn and Dr. Thomas Russell.

The main duties of the Audit Committee are: to oversee the affairs of the Group; to review the financial statements and preliminary and interim results; to review the findings of the external auditors; to direct the internal audit function, and to monitor the management accounting procedures; to investigate any irregularities, and to make recommendations to the Board concerning the appointment and remuneration of external auditors. During 1996 the Audit Committee reviewed the Group Policies Manual in order to ensure appropriate standards of internal control were being maintained. It is anticipated that a revised Group Policies Manual will be distributed to all operating subsidiaries during 1997. The Audit Committee met three times during 1996.

Executive Committee

The Executive Committee consists of the Chairman, Charles Scott; the Chief Executive Officer, Robert Seelert; the Finance Director, Wendy Smyth; the heads of the Company's principal divisions, Michael Bungey, Edward Wax and John Perriss; and the Company Secretary and General Counsel, Graham Howell.

The Executive Committee has as its purpose to deal with the day-to-day and ongoing operational issues and to improve the communications and co-ordination between the Company and the principal operating divisions of the Group. The Executive Committee met on 13 occasions during 1996.

Remuneration and Nominations Committee

The Remuneration and Nominations Committee ('the Committee') entirely comprises non-executive Directors. The Committee is chaired by Sir Peter Walters. The other members are Dudley Fishburn, The Hon. Clive Gibson, Prof. Theodore Levitt and Dr. Thomas Russell.

Following the recommendations of the Greenbury Committee, the Committee has produced a separate report which is set out on the following pages.

Remuneration and Nominations Committee report

The principal functions of the Committee are to determine the remuneration, benefits and terms and conditions of employment of the executive Directors and the Company's most senior employees and to deal with nominations to the Board of the Company. For nominations issues the Chairman and the Chief Executive Officer join the Committee. Externally, the Committee took advice during 1996 on remuneration and benefits from KPMG. The Remuneration and Nominations Committee met four times in 1996.

Policy

It is the policy of the Company to establish a remuneration strategy which rewards performance and enhances shareholder value by creating a greater community of interest between shareholders and employees.

It is the Committee's intention that variable performance-related pay and incentives should make up an increasing proportion of the overall remuneration package when this is justified by the Group's performance.

The same remuneration philosophy applies to Directors and senior executives as to other employees. This is to ensure that they are rewarded competitively relative to other companies in order to attract, retain and motivate executives who are expected to meet the highest levels of performance. Cordiant is today a major international group with 85% of its business, 85% of its employees and 60% of its executive Directors based outside the UK. The Group's remuneration policy reflects the need to ensure that the Group operates efficiently in the international market place.

The remuneration policy for senior executives comprises three elements which are basic salary and associated benefits, annual bonus and a long-term incentive programme. The annual bonus is designed to provide an incentive to achieve and exceed targets set by the Committee and to ensure that annual remuneration varies in line with corporate and personal performance.

The long-term incentive programme is designed to align the interests of senior executives with the medium and long-term interests of shareholders. It is also designed to encourage senior executives to remain with the Group.

Directors' emoluments

The emoluments of the executive Directors, including benefits and pension costs, are approved by the Committee. The emoluments and pension costs of the Directors for 1996 are detailed on page 53. The emoluments relate to their services as Directors and executives.

Salary

Salaries for Directors and senior executives are reviewed annually, being effective from 1 January. No increases have been awarded to Directors for 1997.

Annual bonus

In addition to salary, all senior executives are eligible for an annual performance-related bonus which is non-pensionable.

For the year ended 31 December 1996 the annual bonus paid to each executive Director was a percentage of their annual salary based on, with respect to Mr Scott, Mr Seelert and Mrs Smyth, the attainment of the budgeted revenue and profitability of the Group and, with respect to Messrs Bungey and Wax, a combination of the attainment of budgeted revenue and profitability for the Bates Worldwide and Saatchi & Saatchi Advertising Worldwide networks respectively and the Group. The same methodology will be used to calculate 1997 annual bonuses for each executive Director. The table below shows the bonuses paid.

Benefits in kind

Benefits in kind include such items as club memberships, company cars, medical insurance, life insurance, relocation and travel allowances.

Mr Bungey, who is a UK citizen and who has been relocated to the USA, receives a sum equivalent to school fees in the UK for his children and a travel allowance for flights from the USA to the UK for his wife and his children each year.

Executive Directors' Remuneration

		Year ended 31 Dec 1996 £	Year ended 31 Dec 1995 £
Charles Scott[†] (Chairman)	Salary	300,000	300,000
	Bonus (58.1% of salary, 1995: 20.0%)	174,200	60,000
	Benefits in kind	18,329	14,406
	Pension costs	42,328	42,521
	Total remuneration	**534,857**	**416,927**
Michael Bungey	Salary	480,770	433,327
	Bonus (51.8% of salary, 1995: 27.5%)	249,166	119,165
	Benefits in kind	66,979	76,924
	Pension costs	83,843	98,835
	Total remuneration	**880,758**	**728,251**
Robert Seelert (Chief Executive Officer)	Salary	512,820	203,115
	Bonus (49.3% of salary, 1995: 41.9%)	252,820	85,062
	Benefits in kind	31,338	8,308
	Pension costs	123,091	43,909
	Total remuneration	**920,069**	**340,394**
Wendy Smyth (Finance Director)	Salary	165,000	150,000
	Bonus (38.7% of salary, 1995: 20.0%)	63,900	30,000
	Benefits in kind	12,920	12,875
	Pension costs	19,216	17,469
	Total remuneration	**261,036**	**210,344**
Edward Wax	Salary	496,795	479,755
	Bonus (50.5% of salary, 1995: 15.5%)	250,961	74,510
	Benefits in kind	21,275	13,963
	Pension costs	102,708	117,429
	Total remuneration	**871,739**	**685,657**
Jeremy Sinclair[‡] (Chairman until resignation on 9 January 1995)	Salary	–	6,780
	Bonus (0% of salary, 1995: 0%)	–	0
	Benefits in kind	–	409
	Pension costs	–	1,089
	Total remuneration	–	**8,278**

[†]Highest paid UK Director. Emoluments, excluding pension contributions, in 1996 of £492,529 (1995: £374,406). Emoluments, excluding pension contributions, as Chairman in 1996 of £492,529 (1995: £366,200).

[‡]Emoluments, excluding pension contributions, as Chairman in 1995 of £7,189.

Executive Directors' share options

	Scheme	Date of grant	Exercise price per share	Subscription number of shares	Total exercise price £	Exercise period
C Scott†	UK Executive (No 2)	Jun 1991	134p	486,168	651,465	to Jun 2001
	UK Executive (No 2)	Apr 1992	107p	157,792	168,837	to Apr 2002
	UK Executive (No 2)*	Apr 1992	107p	34,302	36,703	Apr 1997–Apr 2002
	Performance*	May 1995	73p	219,851	160,491	May 2000–May 2002
	Sharesave	Jun 1995	64p	21,376	13,681	Jul 2000–Dec 2000
	Performance*	Apr 1996	130p	300,000	390,000	Apr 2001–Apr 2003
	Total				1,421,177	
M Bungey	UK Executive (No 2)	Jun 1991	134p	137,211	183,863	to Jun 2001
	UK Executive (No 2)*	Apr 1992	107p	74,814	80,051	Apr 1997–Apr 2002
	Performance	May 1995	73p	67,498	49,274	May 1998–May 2005
	Performance	Aug 1995	94p	67,497	63,447	Aug 1998–Aug 2005
	Performance*	Apr 1996	130p	150,000	195,000	Apr 2001–Apr 2003
	Total				571,635	
R Seelert	Performance	Aug 1995	94p	219,849	206,658	Aug 1998–Aug 2005
	Phantom	Aug 1995	94p	487,131	457,903	Aug 1998–Aug 2005
	Phantom	Apr 1996	130p	540,538	702,699	Apr 1999–Apr 2006
	Total				1,367,260	
W Smyth	UK Executive (No 2)	Jun 1991	134p	82,327	110,318	to Jun 2001
	UK Executive (No 2)	Apr 1992	107p	68,605	73,407	to Apr 2002
	UK Executive (No 2)*	Apr 1992	107p	68,605	73,407	Apr 1997–Apr 2002
	Performance*	May 1995	73p	67,498	49,274	May 2000–May 2002
	Performance*	Aug 1995	94p	67,497	63,447	Aug 2000–Aug 2002
	Performance	Apr 1996	130p	75,000	97,500	Apr 1999–Apr 2006
	Performance*	Apr 1996	130p	75,000	97,500	Apr 2001–Apr 2003
	Total				564,853	
E Wax	UK Executive (No 1)	Jun 1991	134p	82,327	110,318	to Jun 1998
	Performance	May 1995	73p	67,498	49,274	May 1998–May 2005
	Performance	Aug 1995	94p	67,497	63,447	Aug 1998–Aug 2005
	Performance	Apr 1996	130p	75,000	97,500	Apr 1999–Apr 2006
	Performance*	Apr 1996	130p	75,000	97,500	Apr 2001–Apr 2003
	Total				418,039	

- During the year, the Company's Ordinary shares traded on The London Stock Exchange at a high of 138p, a low of 90.5p and closed at 103p on 31 December 1996.
- All exercise prices for the share option schemes have been rounded to the nearest penny.
- No Director exercised options under any of the share option schemes during the year.

† Includes spouse's interests.

* Denotes super options.

On appointment to the Board on 9 January 1995, Mr Bungey already had a loan from the Company which totalled US$261,699 including interest charged at US prime rate. At 31 December 1995, he owed US$79,400 (which included interest of US$4,400) which was repaid in full in April 1996. During 1996, the maximum amount outstanding was US$81,144. There are no outstanding loans granted by any member of the Group to any of the Directors or guarantees provided by any member of the Group for their benefit.

Mr Seelert, who is a US citizen, receives a travel allowance every year of six business class flights between the UK and USA for his wife. The Company also provides a flat in London for the exclusive use of Mr Seelert.

Pension arrangements

For all executive Directors only base salary is pensionable.

The pension arrangements for the executive Directors are as follows:

a) Mr Seelert has an unfunded personal retirement benefit scheme involving notional Company contributions at an initial rate of 20% of salary, rising in steps to 30% after eight years and subject to vesting provisions and annual interest. Interest accrues, on these notional contributions, at 8% per annum.

b) Mr Scott receives contributions into personal pension schemes of his choice equivalent to 14% of his salary each year.

c) Mr Bungey is a member of the Cordiant Group Pension Scheme (further details of which are contained on page 85). This is a defined benefit scheme into which both the Company and employee members make annual contributions.

In addition Mr Bungey has a small self-administered pension scheme into which the Company contributes a sum of 6% of his salary plus £15,000 each year. His salary, for these purposes, was capped at £250,000 in October 1989 increasing at 5% per year compound.

d) Mr Wax is a member of the Compton Pension Plan and Compton Supplemental Executive Retirement Plan. No contributions were made on his behalf in 1996.

He also participates in Saatchi & Saatchi's 401K Plan, to which a subsidiary of the Company contributed US$4,750 on his behalf in 1996.

In 1995, the Company approved the establishment of a new Supplemental Executive Retirement Plan for Mr Wax into which a subsidiary of the Company will set aside US$150,000 per year.

e) Mrs Smyth is a member of the Cordiant Group Pension Scheme.

The amounts for pension costs disclosed in the executive Directors' remuneration table are based on the cash cost to the Company, which in the case of the Group schemes is an average of the contribution rate for all members.

The future method of calculation of the amount of pension entitlement earned in the year by each executive Director has yet to be finalised by the London Stock Exchange.

Long-Term rewards

The Company operated a number of share option schemes other than those described below (details of which are more particularly set out on pages 83 and 84) all of which expired in 1994. Some options granted under these schemes are still outstanding.

The following schemes are in place for the Group:

1. A Performance Option Scheme for certain senior executives.

2. 'Ownership Schemes' for the operating networks. These are phantom restricted share plans under which the ultimate value of awards is based on the performance of the worldwide network in which the executives work.

3. A savings-related share option scheme for all UK employees.

Performance Option Scheme

The Performance Option Scheme was introduced on the basis that a small number of individuals would receive grants gradually over the life of the scheme. Options were granted under this scheme in two tranches to 38 senior employees in 1995 and in one tranche to 47 senior employees in 1996.

The grants to the executive Directors, together with their existing grants under previous share option schemes, are set out in the table on page 54. The performance targets for ordinary options under the Performance Option Scheme are that over any three year period from the date of grant there is an increase in the earnings

per share of the Company of at least 6% more than the increase in the Retail Price Index for the same period. Super options under the Performance Option Scheme cannot be exercised before the fifth anniversary of the date of grant and only then if the growth in earnings per share of the Company over a period of at least five years following the date of grant has been such as would place it in the top quartile of the FTSE 100 companies ranked by reference to growth in earnings per share.

The Committee is responsible for approving grants to the executive Directors and other executives under the Performance Option Scheme and for setting the performance criteria which have to be satisfied as a pre-condition for the exercise of options. It is the policy under this scheme not to grant options at a discount to the market value of the Company's Ordinary shares at the time of the grant.

Phantom Share Option Scheme

In August 1995 Mr Seelert was granted a phantom option over the equivalent of 487,131 Ordinary shares in the Company and in April 1996 Mr Seelert was also granted a phantom option over the equivalent of 540,538 Ordinary shares in the Company. Mr Seelert has a contractual entitlement to a grant of phantom share options in 1997 to the value of US$1,066,667.67. Each phantom option is subject to the same rules as apply to the Ordinary options under the Performance Option Scheme; on exercise the Company will pay Mr Seelert in cash an amount equivalent to the increase in value of the relevant number of Ordinary shares in the Company.

Ownership Schemes

The Company encourages its subsidiaries to develop suitable remuneration strategies in support of their business plans. This means that as long as total remuneration is positioned appropriately against the market, and the performance measures for annual and medium-term incentives correspond with the operating strategic plans, then the business can determine, in conjunction with Cordiant management, the most suitable mix of remuneration. Network shares were awarded in 1995 under the Bates Worldwide and Saatchi & Saatchi Advertising Worldwide Ownership Schemes to key executives within each network (some 194 individuals in total). These network shares had an initial value of £1 each; this value increases or decreases in line with performance of the agency network against annual profit targets set for that network.

The profit targets are set by establishing the notional capital employed in the particular network and fixing a rate of return on that capital. The movement in the value of the network shares reflects the value added by the return on notional capital employed over the target for that network. Following the performance of the networks in 1995 and 1996, the current value of Bates Worldwide shares at 31 December 1996 is £1.03p (1995: £1.00p) and the current value at 31 December 1996 of the Saatchi & Saatchi Advertising Worldwide shares is £0.88p (1995: £0.88p).

The network shares will vest in four equal annual instalments following the third anniversary of the date the award was made. Any executive who holds an award will only be able to realise the value of the network shares once they have vested. Where practical, this value will be received in the form of Ordinary shares in the Company which will have, at the date the network shares are realised, a market value equal to the value of the network shares. The network shares will be forfeited if the executive leaves employment (except that in certain circumstances, network shares which have vested may be retained and the value realised for them at the first opportunity following the termination of employment). If the Company was to be taken over, however, executives participating in Ownership Schemes could realise value for the network shares comprised in their awards even where they had not vested. This reflects the normal position under executive share option schemes.

Mr Bungey and Mr Wax participate in, respectively, the Bates Worldwide and Saatchi & Saatchi Advertising Worldwide Ownership Schemes. Mr Bungey's award of network shares had a value of £100,000 at the beginning and £103,000 at the end of the year. Mr Wax's award of network shares had a value of £55,000 at the beginning and end of the year.

Shareholders approved various modifications to the Ownership Schemes in 1996. No awards have been made under the Ownership Schemes in 1996.

The Committee's policy on the granting of options under the Performance Option Scheme is to make one or two grants per annum totalling not more than 1% of the issued ordinary share capital of the Company in any one year. The Committee's policy in respect of the Ownership Schemes is to make awards every other year.

It is the intention of the Committee, when considering further grants of share options and further grants under the 'Ownership Schemes', to review both the size of awards and the performance measures to ensure that, at the time of the award, they are appropriate and challenging, taking into account the views of shareholders and bodies representing institutions and other investors.

Evergreen Plan

This is an historic plan similar to the Phantom Share Option Scheme. Mr Wax is one of the few participants remaining in the plan and his interest in the plan at 31 December 1996 was US$2,423,544 (1995: US$2,280,983). This sum will be paid to Mr Wax upon retirement or on the termination of employment.

Save As You Earn Scheme

The Company operates a Save As You Earn share option scheme for UK employees. This scheme provides a savings and investment opportunity for employees who accept an invitation to participate. Directors are invited to participate on equal terms to other employees. The options may be exercised normally after five years at a price not less than 80% of the market value of the shares at the time of the invitation. The rules of the scheme were amended in 1996 to allow also the grant of 3 year options. Mr Scott has an interest in the SAYE scheme through the participation of his wife, an employee of the Group.

Service Agreements

The Hon. Clive Gibson, Dudley Fishburn, Prof. Theodore Levitt, Dr. Thomas Russell and Sir Peter Walters do not have service agreements with the Company.

Mr Bungey has a service agreement dated 1 July 1993 with Garrott Dorland Crawford Holdings Ltd (a subsidiary of the Company) which may be terminated by 12 months' notice.

Mr Scott has a service agreement dated 10 October 1989 with the Company which terminates three months after receipt of notice. In the event that his employment is terminated he will (in full satisfaction of his entitlement in respect of such termination) become a consultant to the Company for a period of two years on terms no less favourable than those enjoyed immediately prior to such termination.

Mr Seelert has a service agreement with the Company and Cordiant Holdings Inc., a subsidiary of the Company, dated 6 July 1995 for an initial term of three years from 10 July 1995 followed by automatic 12-monthly renewals thereafter. The agreement is, however, terminable on one month's written notice by any party at any time. Mr Seelert has severance arrangements set out in his service agreement as referred to below.

Mrs Smyth has a service agreement with the Company dated 29 March 1994 which may be terminated by 12 months' notice.

Mr Wax has a service agreement with Saatchi & Saatchi North America Inc. (a subsidiary of the Company) dated 1 October 1990 and modified by letter of agreement dated 11 January 1995. This terminates on 31 December 1997.

The Committee has considered the notice periods and termination arrangements in the service agreements referred to above. The Committee believes that they are justifiable in order to retain and motivate the existing executive Directors.

Compensation for early termination

The arrangements for termination of a senior executive's contract are decided on by the Committee after consultation with the Group's Chief Executive Officer. In some cases the Committee will recommend a clean break with the individual concerned and a one-off payment will be made at the time of termination based on that individual's contractual position. In other cases the Committee will recommend that the contractual entitlement of the individual be paid in instalments following termination, such instalments to cease upon the individual concerned obtaining new employment.

Subject to certain exceptions, in the event of termination of Mr Seelert's employment by either party within one year of a change in control of the Company (as defined in Mr Seelert's service agreement), he will be entitled to an amount equal to 280% of his salary plus an additional three years' retirement contributions and the phantom options would immediately vest and become realisable. Termination in certain other circumstances (i.e. death, disability or termination by Mr Seelert with good reason or by the Company without cause), could give rise to an obligation on the part of the Company to pay an amount of 210% of salary. Certain other employee benefits will continue for 18 months after termination, in any event.

Changes During the Year

There were no changes to service agreements during the year.

Comparator Groups

It is essential if the right calibre of executive is to be attracted to, and retained by, the Group that the Group's remuneration policy is market driven on reliable sources of external data.

In monitoring the competitiveness of remuneration all elements of remuneration and benefits for senior executives are compared against a comparator group of the following multinational advertising companies: Grey Advertising Inc., Interpublic Group Inc., Omnicom Inc., True North Inc. and WPP plc. All the comparator group are US based, with the exception of WPP plc which is headquartered in the UK.

The Group also participates in the Towers Perrin worldwide annual remuneration and benefits survey of the advertising industry.

Outside Directorships

No executive Director may accept a non-executive directorship without the permission of the Committee. Mr Scott has two non-executive directorships – Robert Walters plc. and adidas AG. Mr Seelert has two non-executive directorships – The Stride Rite Corporation and the Senior Tour Players Development Inc. Mr Wax has one non-executive directorship – Golf Trust of America Inc. No other executive Director has a non-executive Directorship.

Non-executive Directors' Remuneration	Year ended 31 Dec 1996 £	Year ended 31 Dec 1995 £
Dudley Fishburn (appointed 8 May 1996)	13,600	–
The Hon. Clive Gibson	25,650	32,250
Sir Paul Girolami (Resigned 18 June 1996)	12,400	32,050
Prof. Theodore Levitt	23,400	32,300
Dr. Thomas Russell	26,350	32,400
Sir Peter Walters	25,300	35,200

- The total emoluments, pension costs and fees, for both executive and non-executive Directors for the year ended 31 December 1996 were £3,595,159 (1995: £2,554,051).
- No banding schedule is given as the information in this report extends beyond that required by schedule 6 of the Companies Act 1985.

Non-executive Directors' remuneration

The Board fixes the remuneration of non-executive Directors for all the services normally expected of them as members of the Board and its Committees. The remuneration cannot exceed, without the approval of shareholders in General Meeting, a basic fee of £20,000 per Director a year, together with allowances of £600 per Director for each Board and Committee meeting attended in person, £500 for each Board and Committee meeting attended by telephone and £250 per quarter for acting as Chairman for any Committee of the Board. The basis on which non-executive Directors were paid in 1996 remained the same as applied in 1995 and is intended to remain the same in 1997. The Board retains discretion to approve additional payments for special services.

The non-executive Directors do not participate in any of the incentive or benefit schemes of the Group.

Greenbury Code

The Committee has carefully considered the provisions of the Greenbury Report on Directors' remuneration and the provisions of the Codes of Best Practice in that report and annexed to The London Stock Exchange's Listing Rules. The Company has complied throughout the year with Section A of the Best Practice provisions annexed to the Listing Rules. The Committee confirms that in framing the Group's remuneration policy it has given full consideration to the Best Practice provisions set out in Section B of the Best Practice Provisions annexed to the Listing Rules.

Directors of Cordiant plc

The Directors are: Charles Scott (Chairman), Michael Bungey, Dudley Fishburn, The Hon. Clive Gibson, Prof. Theodore Levitt, Dr. Thomas Russell, Robert Seelert (Chief Executive Officer), Wendy Smyth, Sir Peter Walters and Edward Wax.

The Directors submit their annual report together with the audited financial statements for the year ended 31st December 1996 which were approved by the Board on 26 March 1997.

Results and dividends

The profit for the year after deducting taxation and minority interests amounted to £24.2 million (1995 loss: £37.3 million). The Directors recommend the payment of a final dividend of 1p per Ordinary share on 1 July 1997 to Ordinary shareholders on the register at the close of business on 2 June 1997. After deducting Ordinary dividends of £4.4 million, the profit of £19.8 million has been transferred to reserves.

Review of the Group

The principal activity of the Company continues to be that of a holding company with subsidiaries providing a range of advertising and marketing services on a worldwide basis. A review of the business and likely future developments of the Group is given on pages 2 to 22 in the Chairman's and Chief Executive Officer's Statements and the Operating and Financial Review.

Directors

The interests of the Directors who were in office at the year end in the Company's share capital appearing in the register maintained by the Company pursuant to Section 325 of the Companies Act 1985 were as set out below.

Directors' interests	Beneficially owned Ordinary shares		Ordinary share options	
	31 Dec 1996	31 Dec 1995	**31 Dec 1996**	31 Dec 1995
Charles Scott	**78,430†**	78,430†	**1,219,489†**	919,489†
Michael Bungey	**56,980**	56,980	**497,020**	347,020
Dudley Fishburn	**–**	–	**–**	–
The Hon. Clive Gibson	**–**	–	**–**	–
Prof. Theodore Levitt	**37,592**	37,592	**–**	–
Dr. Thomas Russell	**736,554**	569,701	**–**	–
Robert Seelert	**56,196**	–	**219,849‡**	219,849
Wendy Smyth	**10,166**	10,166	**504,532**	354,532
Sir Peter Walters	**10,000**	10,000	**–**	–
Edward Wax	**87,118**	87,118	**367,322**	217,322

† Includes spouse's interests.
‡ In addition Mr Seelert has 1,027,669 phantom share options (see page 56).

The Directors' interests in the Company's share capital have not changed since 31 December 1996. None of the Directors at any time during the year ended 31 December 1996 had any material interest in any contracts with the Company or any of its subsidiaries.

None of the Directors at any time during the year ended 31 December 1996 or subsequent to 31 December 1996 was interested in any debentures of the Company or shares or debentures of the Company's subsidiaries.

All of the Directors are proposed for re-election. The Institutional Shareholder's Committee recommends that when a director over the age of 70 stands for re-election, the Company should state why it is appropriate that the director should be re-elected. The Directors believe that Prof. Theodore Levitt has made and will continue to make a valuable contribution to the Board.

Dudley Fishburn was appointed as a Director on 8 May 1996.

Principal shareholders

As at 28 February 1997 there were 443,682,881 Ordinary shares in issue.

The Directors have been notified pursuant to Sections 198 to 208 of the Companies Act 1985 of the following interest in ten per cent or more of the issued Ordinary share capital of the Company.

	Shares held	Percentage held
Phildrew Nominees Ltd./PDFM Ltd.	93,635,468	21.10

In addition to the above, the Directors have also been notified pursuant to those sections of the following interests in three per cent or more of the issued Ordinary share capital of the Company.

	Shares held	Percentage held
State of Wisconsin Investment Board	43,786,266	9.87
General Electric Investment Corporation and GE Investment Management Inc.	19,810,794	4.47

The holdings above may include American depositary receipts.

Special business at Annual General Meeting

At the Extraordinary General Meeting held on 18 June 1996, the Directors were given authority for a 5-year period to allot relevant securities (i.e. Ordinary shares and rights to subscribe for or convert into Ordinary shares) up to an aggregate nominal amount of £39,597,683.75. The Special Resolutions to be proposed at the Annual General Meeting will renew the Directors power, pursuant to that authority, to allot equity securities for cash, otherwise than in accordance with statutory pre-emption rights, either by way of a rights issue (Resolution No. 1), or otherwise up to an aggregate nominal amount of £5,500,000 (22,000,000 Ordinary shares) (Resolution No. 2). This figure represents slightly less than 5% of the Company's issued Ordinary share capital. These authorities will expire on the earlier of the date of the next Annual General Meeting of the Company or 19 August 1998.

CREST

The Company's Ordinary shares entered the CREST system on 25 November 1996 and the 6% Convertible Unsecured Loan Stock 2015 entered the CREST system on 24 February 1997.

Donations

The Group made UK charitable donations of £34,000 in the year (1995: £72,000). There were no political donations.

Employment policy

Group policy is, where local law permits, to recruit, employ and develop staff on the basis of the suitability of their qualifications and experience, regardless of sex, marital status, race, nationality, age or religion, except where sex, race, nationality, age or religion is a local bona fide occupational qualification. It is Group policy to give full and fair consideration to applications for employment from disabled people, having regard to their particular abilities and aptitudes. Full consideration is given to continuing the employment of staff who become disabled, including considering them for other positions.

Group networks are managed on a decentralised basis and therefore have developed arrangements for encouraging employee involvement in ways appropriate to their particular circumstances. Communication and consultation with employees is achieved by a variety of means, including briefing sessions and discussions with groups of employees, circulation of newsletters, company announcements and information releases, and dissemination of information through normal management channels.

Policy of payment of creditors

Owing to the global coverage of the Group and varying local practices, our operating businesses are responsible for agreeing the terms and conditions under which business transactions with their suppliers are conducted. It is our policy that payments to suppliers are made in accordance with those terms, providing that the supplier is also complying with all relevant terms and conditions.

Auditor

KPMG Audit Plc have signified their willingness to continue in office and a resolution re-appointing them as auditor and authorising the Directors to determine the auditor's remuneration will be proposed at the Annual General Meeting.

On behalf of the Board

Graham Howell, Secretary
83/89 Whitfield St, London W1A 4XA
26 March 1997

Directors' responsibilities

Statement of Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

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

The Directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company 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.

Auditor's report

Auditor's report to the members of Cordiant plc

We have audited the financial statements on pages 64 to 85. We have also examined the amounts disclosed relating to emoluments, share options and long-term incentive schemes of the Directors which form part of the Remuneration and Nominations Committee report on pages 52 to 59.

Respective responsibilities of Directors and Auditor

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

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group'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 as at 31 December 1996 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
26 March 1997

KPMG Audit Plc

[illegible]al accounting policies

Basis of accounting
The financial statements have been prepared under the historical cost accounting rules and in accordance with applicable accounting standards.

Consolidation
The consolidated financial statements incorporate the financial statements of Cordiant plc and all its subsidiary undertakings made up to 31 December 1996.
In accordance with the Companies Act 1985, s230, a separate profit and loss account of Cordiant plc is not presented although it was approved by the Directors on 26 March 1997.

Discontinued operations
A business is classified as a discontinued operation if it is clearly distinguishable, has a material effect on the nature and focus of the Group's activities, represents a material reduction in the Group's operating facilities and either its sale is completed or, if a termination, its former activities have ceased before the earlier of three months after the commencement of the subsequent period and the date on which the financial statements are approved.

Turnover
Turnover comprises amounts billed to clients, excluding sales taxes and intragroup transactions. Billings are usually rendered upon presentation date for media advertising and upon the completion of radio, television and print production.

Revenue
Revenue represents the fees and commissions, excluding sales taxes, from services provided to clients, and is recognised generally when work is billed.

Pension costs
Retirement benefits for employees of most companies in the Group are provided by either defined contribution or defined benefit schemes which are funded by contributions from Group companies and employees.

The Group's share of contributions to defined contribution schemes is charged against profits of the year for which they are payable and the cost of providing defined benefits is charged against profits, in accordance with the recommendations of independent actuaries, in such a way as to provide for the liabilities evenly over the remaining working lives of the employees.

Leases
Where the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over the shorter of its estimated useful life and the lease term. Future instalments under such leases, net of finance charges, are included in creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account as interest, and the capital element, which reduces the outstanding obligation for future instalments.

All other leases are operating leases and the rental charges are taken to the profit and loss account on a straight line basis over the life of the lease.

Goodwill
Goodwill in respect of acquisitions, including any additional goodwill estimated to arise from contingent capital payments, is written off directly to reserves.

A charge is recognised in the Group's profit and loss account in respect of any permanent diminution in the value of acquisition goodwill. Goodwill written off directly to reserves and not previously charged to the Group's profit and loss account is included in determining the profit or loss on disposal of a subsidiary.

Fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation. The cost of tangible fixed assets less the estimated residual value is written off by equal annual instalments over the expected useful lives of the assets as follows:

Freehold buildings and long leasehold properties:	*50 years*
Short leasehold properties with terms of less than 50 years:	*Period of lease*
Furniture and equipment:	*Between 4 and 10 years*
Motor vehicles:	*4 years*

Fixed asset investments are valued at cost, less amounts provided for any permanent diminution in the value.

Work in progress

Work in progress is valued at the lower of cost and net realisable value, and comprises mainly outlays incurred on behalf of clients.

Deferred taxation

Deferred taxation is provided at the anticipated tax rates on timing differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements, to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Long-term property provisions

Provision is made for the future rent expense and related costs of leasehold property: where it is vacant; the leasehold property has been sublet at a loss; or the sublease is not coterminous with the Group's lease commitment.

Foreign currencies

Profit and loss accounts and cash flow statements in foreign currencies are translated into sterling at the average rate during the year, with the year end adjustment to closing rates being taken to reserves. Assets and liabilities in foreign currencies are translated using the rates of exchange ruling at the balance sheet date.

Gains or losses on translation of the opening net assets of overseas subsidiaries are taken to reserves. All other exchange differences are taken to the profit and loss account.
The Group's principal trading currencies and the exchange rates used are as follows:

	Average rate		Closing rate	
	Year ended 31 Dec 1996	Year ended 31 Dec 1995	**As at 31 Dec 1996**	As at 31 Dec 1995
US Dollar	**1.56**	1.58	**1.71**	1.55
French Franc	**7.99**	7.87	**8.9**	7.59
Deutschmark	**2.35**	2.26	**2.64**	2.22
Australian Dollar	**2.00**	2.13	**2.15**	2.09
Spanish Peseta	**198**	197	**223**	188
Italian Lira	**2409**	2571	**2602**	2463

Consolidated profit and loss account

	Year ended 31 Dec 1996 £ million	Year ended 31 Dec 1995 £ million	Notes
Turnover	4,123.7	4,172.3	
Cost of sales	(3,368.8)	(3,411.2)	
Revenue	**754.9**	**761.1**	1
Net operating expenses	(723.4)	(732.8)	2
Trading profit (before exceptional operating expenses)	**48.0**	**48.6**	1
Exceptional operating expenses	(16.5)	(20.3)	1,3
Operating profit	**31.5**	**28.3**	1
Profit (loss) on disposal of continuing operations	17.8	(34.3)	3
Profit on disposal of discontinued operations	–	4.0	3
Profit (loss) on ordinary activities before interest	**49.3**	**(2.0)**	
Net interest payable and similar charges	(7.5)	(20.6)	4
Profit (loss) on ordinary activities before tax	**41.8**	**(22.6)**	
Tax on ordinary activities	(14.8)	(11.9)	5
Profit (loss) on ordinary activities after tax	**27.0**	**(34.5)**	
Equity minority interests	(2.8)	(2.8)	
Profit (loss) for the year	**24.2**	**(37.3)**	
Dividends proposed on equity shares	(4.4)	–	
Profit (loss) retained for the year	**19.8**	**(37.3)**	16
Earnings (loss) per Ordinary share	5.5p	(12.8)p	6
IIMR headline earnings (loss) per Ordinary share	1.4p	(2.4)p	6
Adjusted weighted average number of Ordinary shares in issue (millions)	443.6	292.4	6

- Except for the profit on disposal of discontinued operations, all the components of the 1996 and 1995 consolidated profit and loss account arose from continuing operations.
- There is no difference between total reported result in the year and that on an historical cost basis.

Consolidated statement of total recognised gains and losses

	Year ended 31 Dec 1996 £ million	Year ended 31 Dec 1995 £ million	
Profit (loss) for the year	24.2	(37.3)	
Translation adjustment	6.8	1.8	16
Total recognised gains (losses) relating to the year	**31.0**	**(35.5)**	

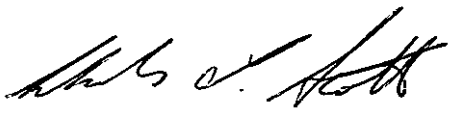
Consolidated balance sheet

	31 Dec 1996 £ million	31 Dec 1995 £ million	Notes
Fixed assets:			
Tangible assets	116.4	123.5	7
Investments	6.9	7.2	8
	123.3	**130.7**	
Current assets:			
Work in progress	35.6	42.8	
Debtors – due within one year	616.4	671.4	9
– due after one year	11.3	13.5	9
Investments	12.1	–	10
Cash at bank and in hand	113.7	134.5	
	789.1	**862.2**	
Creditors *amounts falling due within one year*	(837.6)	(874.0)	11
Net current liabilities	**(48.5)**	**(11.8)**	
Total assets less current liabilities	**74.8**	**118.9**	
Creditors *amounts falling due after more than one year (including convertible debt)*	(144.0)	(170.6)	11
Provisions for liabilities and charges	(138.0)	(155.2)	14
Net liabilities	**(207.2)**	**(206.9)**	
Capital and reserves:			
Called up share capital	230.1	230.0	15,16
Share premium account	137.3	137.0	16
Capital redemption reserve	86.5	86.5	16
Goodwill reserve	(235.6)	(218.2)	16
Profit and loss account	(433.6)	(460.2)	16
Equity shareholders' deficit	**(215.3)**	**(224.9)**	
Equity minority interests	8.1	18.0	
Total capital employed	**(207.2)**	**(206.9)**	

The reconciliation of movement in shareholders' funds is given in note 16 on page 79.

These financial statements were approved by the Board of Directors on 26 March 1997, and were signed on its behalf by:

Charles Scott, Director.



Consolidated statement of cash flows

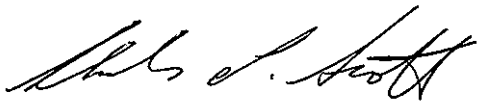
	Year ended 31 Dec 1996 £ million	Year ended 31 Dec 1995 £ million	Notes
Net cash inflow from operating activities	**56.9**	**16.6**	17
Returns on investments and servicing of finance:			
Interest received	7.3	7.8	
Interest paid	(15.2)	(21.8)	
Interest element of finance lease rentals payments	(0.1)	(0.1)	
Bank fees	(0.9)	(4.6)	
Dividends paid to minorities	(1.2)	(2.3)	
Net cash outflow from returns on investments and servicing of finance	**(10.1)**	**(21.0)**	
Taxation:			
UK corporation tax recovered	0.1	2.0	
Overseas tax paid	(9.4)	(8.0)	
Net tax paid	**(9.3)**	**(6.0)**	
Investing activities:			
Purchase of tangible fixed assets	(26.9)	(26.6)	
Sale of tangible fixed assets	2.9	5.5	
Purchase of subsidiary undertakings	(23.6)	(7.3)	20
Sale of subsidiary undertakings	9.9	26.7	20
Purchase of other fixed asset investments	(0.9)	(0.1)	
Sale of other fixed asset investments	0.1	0.2	
Net cash outflow from investing activities	**(38.5)**	**(1.6)**	
Total net cash outflow before financing	**(1.0)**	**(12.0)**	
Financing:			
Issue of Ordinary share capital	–	133.0	19
Costs of share issue	–	(6.4)	19
Capital subscribed by minorities	0.2	–	
Loans repaid	(11.0)	(128.4)	19
Capital element of finance lease rental payments	(0.4)	(0.4)	19
Net cash outflow from financing	**(11.2)**	**(2.2)**	
Decrease in cash and cash equivalents	**(12.2)**	**(14.2)**	18

Company balance sheet

	31 Dec 1996 £ million	31 Dec 1995 £ million	Notes
Fixed assets:			
Investments	465.6	516.6	8
Current assets:			
Debtors	3.7	9.0	9
Cash at bank and in hand	78.0	75.1	
	81.7	**84.1**	
Creditors *amounts falling due within one year*	**(52.9)**	(53.6)	11
Net current assets	**28.8**	**30.5**	
Total assets less current liabilities	**494.4**	**547.1**	
Creditors *amounts falling due after more than one year (including convertible debt)*	**(6.4)**	(6.6)	11
Net assets	**488.0**	**540.5**	
Capital and reserves:			
Called up share capital	230.1	230.0	15,16
Share premium account	137.3	137.0	16
Capital redemption reserve	86.5	86.5	16
Profit and loss account	34.1	87.0	16
Equity shareholders' funds	**488.0**	**540.5**	

These financial statements were approved by the Board of Directors on 26 March 1997, and were signed on its behalf by:

Charles Scott, Director.



1 Geographical analysis of revenue, profit and net liabilities

	Revenue Year ended 31 Dec		Trading profit Year ended 31 Dec		Exceptional operating items Year ended 31 Dec		Operating profit Year ended 31 Dec	
	1996 £ million	1995 £ million	**1996** £ million	1995 £ million	**1996** £ million	1995 £ million	**1996** £ million	1995 £ million
UK	113.4	111.7	12.4	12.4	–	(2.4)	12.4	10.0
North America	269.1	278.8	17.0	14.2	(16.5)	(12.6)	0.5	1.6
Rest of Europe	218.1	232.2	14.2	17.5	–	(3.1)	14.2	14.4
Asia Pacific	154.3	138.4	4.4	4.5	–	(2.2)	4.4	2.3
	754.9	**761.1**	**48.0**	**48.6**	**(16.5)**	**(20.3)**	**31.5**	**28.3**
Net profit (loss) on disposal of operations							17.8	(30.3)
Net interest payable and similar charges							(7.5)	(20.6)
Profit (loss) before tax							**41.8**	**(22.6)**

- The geographical analysis of revenue, trading profit and net liabilities has been prepared on a basis that more closely reflects the management of the operations of the Group.
- The Directors consider that there is only one continuing business activity, namely advertising and marketing services, and that it is more appropriate to show a geographical analysis of revenue than turnover. Revenue by geographic destination is not materially different from revenue by geographic origin.

Net liabilities	**31 Dec 1996** £ million	31 Dec 1995 £ million
UK	(72.6)	(83.7)
North America	(82.7)	(64.3)
Rest of Europe	(22.6)	(12.4)
Asia Pacific	(0.8)	(17.8)
	(178.7)	**(178.2)**
Net financial items	(28.5)	(28.7)
Net liabilities	**(207.2)**	**(206.9)**

- Net liabilities are shown after the write off of acquired goodwill.
- Net financial items include cash at bank, loan stock, bank loans and overdrafts, other loans and obligations under finance leases and hire purchase commitments.

2 Net operating expenses

	Year ended 31 Dec 1996 £ million	Year ended 31 Dec 1995 £ million
Staff and other associated costs (including exceptional items) – *see Notes 3 and 25*	426.4	434.3
Depreciation of owned fixed assets	25.1	25.0
Depreciation of assets held under finance leases	0.7	0.7
Loss (gain) on sale of tangible fixed assets	0.2	(1.5)
Operating leases – plant and machinery	3.1	3.2
– leasehold property net of sublease income	48.3	52.4
Auditors' remuneration – audit	2.5	2.5
– other	0.9	0.8
Other administrative expenses (including exceptional items) – *see Note 3*	216.2	215.4
	723.4	**732.8**

3 Exceptional operating and non-operating items

	Year ended 31 Dec 1996 £ million	Year ended 31 Dec 1995 £ million
Operating items:		
Termination of a defined benefits pension plan – *see Note 25*	8.3	–
Property provisions	8.2	–
Severance and reorganisation costs	–	17.0
Litigation and associated costs	–	3.3
Total costs included in operating profit	**16.5**	**20.3**

- Property provisions arose from the decision to vacate surplus office space with an estimated future net rental shortfall of £8.2 million.
- Litigation and associated costs of £nil (1995: £3.3 million) related to the departure of the former Chairman and other senior executives.

	Year ended 31 Dec 1996 £ million	Year ended 31 Dec 1995 £ million
Non-operating items:		
(Profit) loss on disposal of continuing operations	(17.8)	34.3
Profit on disposal of discontinued operations	–	(4.0)
Exceptional bank fees – *see Note 4*	–	3.9
Total (profit) loss outside operating profit	**(17.8)**	**34.2**

- The profit on disposal of continuing operations in 1996 of £17.8 million comprised £16.5 million from the disposal of the remaining interest in Draft Direct (formerly Kobs & Draft Worldwide) and a receipt of £1.3 million from disposals in prior years.
- The loss on disposal of continuing operations in 1995 of £34.3 million arose from the sale and closure of the CME network, the sale of the Kobs & Draft Worldwide network and the implementation of an equity incentive scheme for Bates Australia (The Communications Group Pty. Ltd). The loss on disposal included the non-cash write-off of £50.2 million of acquired goodwill.
- The profit on disposal of discontinued operations in 1995 of £4.0 million arose from payments received from consultancy operations sold in prior years.

4 Net interest payable and similar charges

	Year ended 31 Dec 1996 £ million	Year ended 31 Dec 1995 £ million
Interest payable and similar charges:		
Bank loans, overdrafts and other loans	13.1	23.3
Finance leases and hire purchase	0.1	0.1
Loan stock	0.4	0.4
Bank fees	1.1	0.7
Exceptional bank fees	–	3.9
	14.7	**28.4**
Interest receivable and similar items:		
Cash and deposits	(6.5)	(7.4)
Note interest	(0.7)	(0.4)
	(7.2)	**(7.8)**
	7.5	**20.6**

- Exceptional bank fees in 1995 of £3.9 million arose from the renegotiation of bank facilities in April 1995 which were superseded by the subsequent rights issue and amended bank facility.

5 Taxation

	Year ended 31 Dec 1996 £ million	Year ended 31 Dec 1995 £ million
UK corporation tax at 33% (1995: 33%)	1.1	0.3
Less relief for overseas tax	(0.6)	(0.4)
ACT written off	1.1	–
UK deferred taxation	(0.5)	(0.8)
	1.1	**(0.9)**
Overseas taxation	13.1	14.3
Overseas deferred taxation	0.6	(1.5)
	14.8	**11.9**

- The tax effect of the operating and non-operating exceptional items was a tax credit of £nil million (1995: credit of £2.1 million). The 1995 tax charge reflected the fact that the loss on disposal of operations and the exceptional expenses were, in most cases, either not recognised for tax purposes or added to existing losses.

6 Earnings (loss) per Ordinary share

- The earnings (loss) per Ordinary share are based on the weighted average number of Ordinary shares in issue, during the year ended 31 December 1996, of 443,615,772 (1995: 292,441,558). The number of Ordinary shares in issue at 31 December 1996 was 443,682,881.
- The definition of IIMR headline earnings is given in the Statement of Investment Practice No. 1 published by the Institute of Investment Management and Research (IIMR).

	Year ended 31 Dec 1996		Year ended 31 Dec 1995	
	£ million	*Per share*	*£ million*	*Per share*
Earnings (loss)	24.2	5.5p	(37.3)	(12.8)p
(Profit) loss on disposal of operations	(17.8)	(4.1p)	30.3	10.4p
IIMR headline earnings (loss)	6.4	1.4p	**(7.0)**	**(2.4)p**
Exceptional items (net of tax credit of £nil; 1995: £2.1m)	16.5	3.8p	22.1	7.6p
Adjusted earnings	**22.9**	**5.2p**	**15.1**	**5.2p**

- In the opinion of the Directors the adjusted earnings per Ordinary share assists in understanding the underlying performance of the Group.
- Earnings per share on the nil distribution and fully diluted bases have not been disclosed as they are not materially different.

7 Tangible fixed assets

Group	Freehold property £ million	Leasehold property – long £ million	Leasehold property – short £ million	Furniture and equipment £ million	Motor vehicles £ million	Total £ million
Cost:						
At beginning of year	8.6	1.2	96.6	156.3	11.3	274.0
Translation adjustment	(2.0)	–	(7.3)	(12.4)	(0.4)	(22.1)
Additions	–	0.3	2.9	18.7	2.1	24.0
Revaluation	4.5	–	–	–	–	4.5
Companies acquired	–	0.2	–	0.8	0.2	1.2
Disposals	–	(0.1)	(1.7)	(9.3)	(3.0)	(14.1)
At end of year	**11.1**	**1.6**	**90.5**	**154.1**	**10.2**	**267.5**
Depreciation:						
At beginning of year	3.1	0.3	33.9	106.3	6.9	150.5
Translation adjustment	(0.5)	–	(3.1)	(9.8)	(0.3)	(13.7)
Charge for the year	0.2	0.1	4.9	18.5	2.1	25.8
Companies acquired	–	0.2	–	0.5	0.1	0.8
Disposals	–	(0.1)	(1.4)	(8.6)	(2.2)	(12.3)
At end of year	**2.8**	**0.5**	**34.3**	**106.9**	**6.6**	**151.1**
Net book value:						
At beginning of year	5.5	0.9	62.7	50.0	4.4	123.5
At end of year	**8.3**	**1.1**	**56.2**	**47.2**	**3.6**	**116.4**
Net book value of assets held under finance leases included above:						
At beginning of year	–	–	0.1	0.2	0.1	0.4
At end of year	–	–	–	**0.3**	**0.1**	**0.4**

- Revaluation of freehold property arises from a fair value adjustment on the acquisition of the minority shareholding in Saatchi & Saatchi Advertising SA and does not give rise to a revaluation reserve in shareholders' equity.
- Net book value of land and buildings at end of year was £65.6 million (1995: £69.1 million).

8 Fixed asset investments

Group	Associated undertakings £ million	Long term investments £ million	Works of art £ million	Total £ million
Cost:				
At beginning of year	3.1	12.8	3.8	19.7
Translation adjustment	(0.3)	(1.2)	–	(1.5)
Additions	1.1	0.1	–	1.2
Disposals	–	(1.5)	(0.1)	(1.6)
At end of year	**3.9**	**10.2**	**3.7**	**17.8**
Provisions:				
At beginning of year	2.4	10.1	–	12.5
Translation adjustment	(0.2)	(1.0)	–	(1.2)
Additions	–	0.2	–	0.2
Disposals	–	(0.6)	–	(0.6)
At end of year	**2.2**	**8.7**	**–**	**10.9**
Net book value:				
At beginning of year	0.7	2.7	3.8	7.2
At end of year	**1.7**	**1.5**	**3.7**	**6.9**

Long term investments include £0.3 million (1995: £0.5 million) of overseas listed investments with a market value of £0.3 million (1995: £0.5 million).

Company	Subsidiary undertakings: Investments £ million	Subsidiary undertakings: Loans £ million	Subsidiary undertakings: Sub-total £ million	Long term investments £ million	Works of art £ million	Total £ million
Cost:						
At beginning of year	235.7	1,003.1	1,238.8	0.3	3.8	1,242.9
Additions	3.1	–	3.1	–	–	3.1
Transfer to subsidiaries	(1.5)	–	(1.5)	–	–	(1.5)
Subsidiaries liquidated	(1.0)	–	(1.0)	–	–	(1.0)
Repayments and disposals	–	(1.6)	(1.6)	–	(0.1)	(1.7)
At end of year	**236.3**	**1,001.5**	**1,237.8**	**0.3**	**3.7**	**1,241.8**
Provisions:						
At beginning of year	54.6	671.4	726.0	0.3	–	726.3
Utilised	(0.8)	–	(0.8)	–	–	(0.8)
Profit and loss account	1.9	49.1	51.0	(0.3)	–	50.7
At end of year	**55.7**	**720.5**	**776.2**	**–**	**–**	**776.2**
Net book value:						
At beginning of year	181.1	331.7	512.8	–	3.8	516.6
At end of year	**180.6**	**281.0**	**461.6**	**0.3**	**3.7**	**465.6**

8 Fixed asset investments *(continued)*

Except where otherwise indicated the Company indirectly owned 100% of each class of the issued shares of the subsidiary undertakings listed below. All these subsidiary undertakings are advertising and marketing services companies. The country of operation and registration of the principal subsidiary undertakings were as follows:

England	Bates Dorland Ltd Saatchi & Saatchi Group Ltd Zenith Media Ltd
Australia	The Communications Group Pty Ltd (75.1% Ordinary)
France	Saatchi & Saatchi Advertising SA
Germany	Saatchi & Saatchi Advertising GmbH Scholz & Friends GmbH (90% Ordinary)
Italy	Saatchi & Saatchi Advertising SpA
Spain	Grupo Bates SA
US	Bates Advertising USA, Inc Klemtner Advertising, Inc Saatchi & Saatchi North America, Inc

In the opinion of the Directors, these subsidiary undertakings principally affected the results or the assets of the Group. In addition to the companies shown in the above list the Group also holds investments in many other subsidiary and associated undertakings. A full list of subsidiary undertakings will be filed with the Registrar of Companies.

9 Debtors

	Group		Company	
	31 Dec 1996 *£ million*	31 Dec 1995 *£ million*	**31 Dec 1996** *£ million*	31 Dec 1995 *£ million*
Due within one year:				
Trade debtors – *see Note 11*	534.7	580.1	–	–
Amounts due from subsidiary undertakings	–	–	3.6	7.3
Amounts due from associated undertakings	0.4	1.7	–	–
Other debtors	22.7	32.3	0.1	0.8
Prepayments and accrued income	58.6	57.3	–	0.9
	616.4	**671.4**	**3.7**	**9.0**
Due after one year:				
Other debtors	9.0	10.9	–	–
Prepayments and accrued income	2.3	2.6	–	–
	11.3	**13.5**	**–**	**–**
	627.7	**684.9**	**3.7**	**9.0**

Total Group other debtors amount to £31.7 million (1995: £43.2 million). Total Group prepayments and accrued income amount to £60.9 million (1995: £59.9 million).

10 Current asset investments

	31 Dec 1996 £ million	31 Dec 1995 £ million
Listed:		
Investments listed overseas	**12.1**	–

- The market value at 31 December 1996 of listed investments was £12.3 million.
- The listed investments are held as security against bank loans – *see Note 11*.

11 Creditors

	Group		Company	
	31 Dec 1996 £ million	31 Dec 1995 £ million	**31 Dec 1996** £ million	31 Dec 1995 £ million
Due within one year:				
Bank loans	0.5	0.4	–	–
Bank overdrafts	47.8	48.2	40.3	41.6
Other loans	4.5	0.4	–	–
Finance leases and hire purchase	0.3	0.3	–	–
Taxation and social security	45.1	52.3	5.4	4.1
Trade creditors	512.7	552.2	–	–
Amounts due to subsidiary undertakings	–	–	2.0	4.9
Amounts due to associated undertakings	0.7	0.5	–	–
Proposed dividends – equity shareholders	4.4	–	4.4	–
Other creditors	221.6	219.7	0.8	3.0
	837.6	**874.0**	**52.9**	**53.6**
Due after one year:				
Loan stock	6.2	6.2	6.2	6.2
Bank loans	79.1	107.3	–	–
Other loans	3.6	0.2	–	–
Finance leases and hire purchase	0.2	0.2	–	–
Taxation and social security	43.6	41.1	–	–
Other creditors	11.3	15.6	0.2	0.4
	144.0	**170.6**	**6.4**	**6.6**

- The Loan stock is convertible, unsecured, bears interest at 6% and is repayable at par in 2015 unless previously converted into Ordinary shares at the option of the Loan stock holders during a specified period in the years to 2015 at £8.9907 nominal of Ordinary shares for every £100 nominal of Loan stock.
- An amount of £1.0 million (1995: £0.4 million) included in bank loans and overdrafts is secured by charges over assets. In addition an amount of £79.1 million (1995: £107.3 million) of the Group's borrowings is secured by guarantees from and charges over the assets of the Company and a number of its subsidiaries. An amount of £27.2 million (1995: £20.9 million) included in trade creditors is secured on related trade debtors and cash balances. Liabilities under finance leases are secured on the assets leased.
- An amount of £4.0 million (1995: £nil) included in other loans is secured on related trade debtors.
- The majority of bank loans are denominated in US dollars and have a final maturity on 6 January 1999.
- At 31 December 1996 the Group had committed core banking facilities totalling £127.2 million (1995: £163.7 million), of which £79.1 million (1995: £107.3 million) were being utilised.

12 Finance leases

Gross obligations under finance leases due after more than one year:	31 Dec 1996 £ million	31 Dec 1995 £ million
From one to two years	0.1	0.2
From two to five years	0.1	–
Less: future finance charges	–	–
	0.2	**0.2**

13 Guarantees and contingent liabilities

- In addition to the amounts described in Note 11, the Company has guaranteed £0.8 million (1995: £0.4 million) of borrowings of subsidiary undertakings. At 31 December 1996 in total £79.9 million (1995: £107.7 million) of borrowings guaranteed by the Company were outstanding.
- The Company has also guaranteed the operating lease commitments (all relating to leasehold property) of certain subsidiary undertakings. The leases are for various periods up to the year 2013 and the total obligations at 31 December 1996 amounted to £393.8 million (1995: £435.1 million) and in addition the Company has given other guarantees in respect of liabilities of subsidiary undertakings incurred in the normal course of business amounting to £0.3 million (1995: £2.0 million).
- Other guarantees given by Group companies to third parties amounted to £6.3 million at 31 December 1996 (1995: £2.0 million).
- Two former employees of National Research Group Inc. ('NRG'), a subsidiary of the Group, brought actions during 1996 against NRG. The court of first instance in California awarded damages to each individual of $500,000 together with legal fees amounting to approximately an additional $1 million in total. NRG denies the allegations made by the two ex-employees, has retained American counsel and is appealing the case vigorously in the California Appellate courts.

14 Provisions for liabilities and charges

Group	Deferred taxation £ million	Property £ million	Pensions and similar employment obligations £ million	Other £ million	Total £ million
At beginning of year	1.9	120.4	31.2	1.7	155.2
Translation adjustment	(0.2)	(6.0)	(3.2)	(0.2)	(9.6)
Revaluation	0.9	–	–	–	0.9
Profit and loss account	0.1	8.2	2.7	0.9	11.9
Utilised	–	(16.9)	(1.1)	(0.8)	(18.8)
Reclassification to taxation and social security due within one year	(1.6)	–	–	–	(1.6)
At end of year	**1.1**	**105.7**	**29.6**	**1.6**	**138.0**

- Deferred taxation is in respect of various short-term timing differences.
- The Group has no material deferred tax liabilities unprovided. No provision is made for tax that would arise on the remittance of overseas earnings as the Group intends to keep these earnings invested locally.

Analysis of leasehold property provisions by years:	31 Dec 1996 £ million	31 Dec 1995 £ million
Under one year	16.7	16.8
One to two years	12.6	11.8
Two to five years	24.6	31.6
Over five years	51.8	60.2
	105.7	**120.4**

15 Share capital

	31 Dec 1996 £ million	31 Dec 1995 £ million
Authorised share capital of the Company	**269.7**	**269.7**
Allotted, called up and fully paid:		
443,682,881 Ordinary shares of 25p each (1995: 443,267,584)	110.9	110.8
2,384,598,152 Deferred shares of 5p each (1995: 2,384,598,152)	119.2	119.2
	230.1	**230.0**

- The Deferred shares were created as part of the share consolidation and sub-division in June 1992. They are not listed and no share certificates have been issued in respect of these shares. They are held by a custodian company and the Company has the right to buy them back for a negligible sum.
- On 12 February 1996 the Company issued 327,960 Ordinary shares at a price of £1.09 per share as further consideration to the vendors of Adaptus International A/S, a Norwegian subsidiary.
- On 1 May 1996 the Company issued 64,522 Ordinary shares at a price of £1.344 per share as deferred consideration to the vendors of Campaign Palace, Sydney.
- During the year the Company issued 22,815 Ordinary shares pursuant to receipt of notices to exercise options from employees of the Group.

16 Reconciliation of movement in shareholders' deficit

Group	Share capital £ million	Share premium £ million	Capital redemption reserve £ million	Goodwill reserve £ million	Profit and loss account £ million	**Total 31 Dec 1996** £ million	Total 31 Dec 1995 £ million
At beginning of year	230.0	137.0	86.5	(218.2)	(460.2)	(224.9)	(355.5)
Issues of Ordinary shares net of expenses	0.1	0.3	–	–	–	0.4	127.2
Merger reserve arising in year	–	–	–	–	–	–	0.9
Goodwill arising in year	–	–	–	(17.4)	–	(17.4)	(12.2)
Elimination of goodwill reserves on disposals	–	–	–	–	–	–	50.2
Profit (loss) retained for the year	–	–	–	–	19.8	19.8	(37.3)
Translation adjustment	–	–	–	–	6.8	6.8	1.8
At end of year	**230.1**	**137.3**	**86.5**	**(235.6)**	**(433.6)**	**(215.3)**	**(224.9)**

Company	Share capital £ million	Share premium £ million	Capital redemption reserve £ million	Goodwill reserve £ million	Profit and loss account £ million	**Total 31 Dec 1996** £ million	Total 31 Dec 1995 £ million
At beginning of year	230.0	137.0	86.5	–	87.0	540.5	432.9
Issue of Ordinary shares net of expenses	0.1	0.3	–	–	–	0.4	127.2
Loss for the year	–	–	–	–	(48.5)	(48.5)	(19.6)
Dividends proposed	–	–	–	–	(4.4)	(4.4)	–
At end of year	**230.1**	**137.3**	**86.5**	**–**	**34.1**	**488.0**	**540.5**

The loss for the year in the Company of £48.5 million (1995: £19.6 million) was after charging an additional provision against investments in subsidiary undertakings of £51.0 million (1995: £25.0 million).

17 Reconciliation of operating profit to net cash inflow from operating activities

	Year ended 31 Dec 1996 £ million	Year ended 31 Dec 1995 £ million
Operating profit	31.5	28.3
Depreciation	25.8	25.7
Loss (gain) on sale of tangible fixed assets	0.2	(1.5)
Decrease (increase) in work in progress	3.5	(9.4)
Decrease (increase) in debtors	0.2	(54.8)
Increase in creditors	12.6	38.6
Utilisation of property provisions	(16.9)	(10.3)
Net cash inflow from operating activities	**56.9**	**16.6**

18 Changes in cash and cash equivalents

	31 Dec 1996 £ million	31 Dec 1995 £ million
Movement in the year:		
At beginning of year	86.3	97.0
Net cash outflow before adjustment for translation	(12.2)	(14.2)
Effect of foreign exchange translation	(8.2)	3.5
At end of year	**65.9**	**86.3**

	31 Dec 1996 £ million	Change in year £ million	31 Dec 1995 £ million	Change in year £ million	31 Dec 1994 £ million
As shown in the balance sheet:					
Cash at bank and in hand	113.7	(20.8)	134.5	(2.7)	137.2
Bank overdrafts	(47.8)	0.4	(48.2)	(8.0)	(40.2)
	65.9	**(20.4)**	**86.3**	**(10.7)**	**97.0**

19 Changes in financing during the year

	31 Dec 1996 £ million	31 Dec 1995 £ million
Capital:		
At beginning of year	453.5	326.3
Shares issued for cash	–	133.0
Costs of share issue	–	(6.4)
Shares issued for acquisitions	0.4	0.6
At end of year	**453.9**	**453.5**
Loans:		
At beginning of year	115.0	243.8
Finance leases in companies acquired	0.3	–
Decrease in borrowings	(11.4)	(128.8)
Translation adjustment credited to reserves	(9.5)	–
At end of year	**94.4**	**115.0**

- Capital includes Ordinary and Deferred shares, share premium account and capital redemption reserve.
- Loans include short- and long-term loans, other than overdrafts, and finance lease obligations.

20 The effects of acquisitions and prior year disposals of subsidiaries in 1996

	Acquisitions £ million	Disposals £ million
Goodwill	17.4	–
Tangible fixed assets	0.5	–
Property revaluation*	3.6	–
Investments (fixed)	(0.2)	(0.8)
Work in progress	0.1	–
Debtors	5.6	(3.4)
Sale proceeds:		
– cash	–	9.9
– loans	–	–
– investments (current)	–	11.8
	27.0	**17.5**

	Acquisitions £ million	Disposals £ million
Creditors	8.0	(0.3)
Minorities	(10.9)	–
Cost of acquisitions and deferred payments:		
– cash (net)	23.6	–
– shares	0.4	–
– accruals	5.9	–
Net profit on disposals	–	17.8
	27.0	**17.5**

* Net of deferred tax provision.

- The net book value of assets acquired is not materially different from their fair value with the exception of the revaluation of the freehold property in Saatchi & Saatchi Advertising SA – *see note 7.*

21 Commitments

- The Group is committed to make certain capital payments in the form of deferred consideration and to acquire certain minority interests in subsidiaries. All commitments totalling £14.6 million have been accrued in the balance sheet.

- At 31 December 1996 the Group had the following other commitments in respect of capital expenditure and non-cancellable operating leases for the following year:

	31 Dec 1996 £ million	31 Dec 1995 £ million
Capital expenditure:		
Committed but not provided for	**1.2**	**0.5**

	Land and buildings				**31 Dec 1996**	31 Dec 1995
	Gross £ million	Provisions £ million	Net £ million	Other £ million	**Total** £ million	Total £ million
Non-cancellable operating leases which expire:						
Within one year	4.9	(0.7)	4.2	0.5	4.7	3.1
Within two to five years	14.6	(2.7)	11.9	2.1	14.0	21.3
Over five years	39.3	(5.7)	33.6	0.1	33.7	31.2
	58.8	**(9.1)**	**49.7**	**2.7**	**52.4**	**55.6**

- Of the above operating lease property commitments, an amount of £14.4 million is recoverable from sub-tenants (1995: £14.2 million).

22 Transactions with related parties

- Contracts of significance which were entered into by the Company during the financial year in which the directors of a subsidiary company had a material interest were as follows:
- With effect from 1 January 1996, the Company acquired the 47.4% minority interest in the share capital of Saatchi & Saatchi Advertising SA in France held by the management. Consideration of FFR140.1 million (£17.5 million) was paid in cash and additional cash payments totalling FFR 48.9 million (£5.5 million) will be made in 1997 and 1998.
- In February 1996, the Company issued 327,960 Ordinary shares at a price of £1.09 per share as further consideration to the vendors of Adaptus International A/S, a Norwegian subsidiary.
- In May 1996, the Company issued 64,522 Ordinary shares at a price of £1.344 per share as further consideration to the vendors of Campaign Palace, Sydney.
- In May 1996, the Company acquired a further 10.7% minority interest in the share capital of Scholz & Friends GmbH in Germany. Consideration of DM5.4 million (£2.3 million) was paid in cash.
- In October 1996, the Company acquired the 49% minority interest in the share capital of BSB Saatchi & Saatchi MC Limited in Poland. Consideration of £1.5 million was paid in cash. Deferred consideration of £0.4 million was paid in cash in March 1997.
- During the year the Company made deferred payments totalling Pts233.8 million (£1.3 million) relating to the acquisition in 1994 of the minority interest in Grupo Bates SA in Spain.
- During the year transactions in the ordinary course of business with associated companies were as follows:

	£m
Media services	32.0
Production	5.0
	37.0

- The year end balances with associated companies are disclosed in notes 9 and 11.

23 Subsequent events

- There have been no material subsequent events.

24 Directors' emoluments

- Details of Directors' emoluments, the Chairman's emoluments, the highest paid UK Director, share options and long-term incentive schemes are set out on pages 52 to 59. The total emoluments, pension costs and fees for the year ended 31 December 1996 were £3,595,159 (1995: £2,554,051) of which £126,700 (1995: £164,200) were fees.

25 Employees

	Year ended 31 Dec 1996	Year ended 31 Dec 1995
Geographic area:		
UK	1,653	1,750
North America	3,045	3,399
Rest of Europe	2,791	2,769
Asia Pacific	2,720	2,652
Average number of employees of the Group	**10,209**	**10,570**

	Year ended 31 Dec 1996 *£ million*	Year ended 31 Dec 1995 *£ million*
Wages and salaries	367.3	380.3
Social security costs	37.2	37.6
Pension costs – *see note 27*	21.9	16.4
	426.4	**434.3**

- Included in the pension cost for the year of £21.9 million (1995: £16.4 million) there was an exceptional charge of £8.3 million (1995: nil) to terminate the defined benefits pension plan in the USA – *see note 27*.

26 Employee share schemes

- The Company has four executive share option schemes only one of which, the Performance Share Option Scheme ("the Performance Option Scheme"), is currently being operated. The others are the Executive Share Option Scheme ("the Number 1 Scheme") primarily for executives not resident in the United Kingdom; the Employee Stock Option Plan ("the Plan") for executives resident in the United States; and the Executive Share Option Scheme Number 2 ("the Number 2 Scheme"). The Number 2 Scheme was approved by the Inland Revenue under the terms of the Income and Corporation Taxes Act 1988 (ICTA) and was intended only for executives resident in the United Kingdom. The Number 1 Scheme, Number 2 Scheme and the Plan all expired in April 1994 although existing options subsisting at the date of expiry remain exercisable, with the exception of the Plan under which all existing options expired in January 1997. The Performance Option Scheme was adopted at the Extraordinary General Meeting of the Company held on 16 March 1995 and was approved by the Inland Revenue under the terms of ICTA in May 1995. It is intended for executives resident throughout the world.
- Options granted to participants in the Number 1 Scheme, the Number 2 Scheme and the Performance Option Scheme (which includes super options) were over Ordinary shares of the Company at a price equivalent to The London Stock Exchange middle market quotation on the day preceding the date of the grant of the option. In the case of the Plan, the price was equivalent to one third of the mean of the high and low price of an American depository share of the Company on the New York Stock Exchange on the day preceding the date of grant of the option.

26 Employee share schemes *(continued)*

- A Save As You Earn (SAYE) Share Option Scheme ("Sharesave 1995") was adopted at the Extraordinary General Meeting held on 16 March 1995. Inland Revenue approval for Sharesave 1995 under the terms of ICTA was obtained on 15 May 1995. Eligible employees in the UK were invited to save a fixed amount per month for a period of five years and applied for an option at a predetermined exercise price. The exercise price was fixed at the date of invitation at a price which was not less than the higher of a share's nominal value or 80% of its market value at the time. Market value is the middle market price of a share on The London Stock Exchange on the dealing day (or the average of such prices on the three dealing days) before the invitation was made. When the option is exercised, the accumulated savings and interest/bonus are used to pay the exercise price.
- Changes in the number of Ordinary shares issuable under options outstanding under the executive share option schemes and the SAYE schemes during the financial year are as follows:

	Executive schemes Ordinary shares	SAYE scheme Ordinary shares
At beginning of year	10,190,722	2,205,916
Options exercised	(13,722)	(9,093)
Options granted	3,645,000	Nil
Options lapsed	(1,232,146)	(233,388)
At end of year	**12,589,854**	**1,963,435**

- Options outstanding at 31 December 1996 under the Company's Share Option Schemes are shown below.

Scheme	Date of grant	Number of shares	Exercise price	Exercisable from	Exercisable to
Number 1 Scheme	Jan 1990	2,486*	1534p	Jan 1995	Jan 1997
	Jun 1991	1,945,123	134p	Jun 1994	Jun 1998
	Sep 1991	19,209	134p	Sep 1994	Sep 1998
	Apr 1992	703,936*	107p	Apr 1997	Apr1999
Number 2 Scheme	Jul 1988	1,997	2250p	Jul 1991	Jul 1998
	Jun 1991	1,671,311	134p	Jun 1994	Jun 2001
	Sep 1991	107,022	134p	Sep 1994	Sep 2001
	Apr 1992	260,698	107p	Apr 1995	Apr 2002
	Apr 1992	879,748*	107p	Apr 1997	Apr 2002
	Apr 1994	327,236	102p	Apr 1997	Apr 2004
The Plan	Jan 1990	4,147*	1497p	Jan 1995	Jan 1997
Sharesave 1995	Jun 1995	1,963,435	64p	Jul 2000	Dec 2000
Performance Option Scheme	May 1995	1,193,733	73p	May 1998	May 2005
	May 1995	287,349*	73p	May 2000	May 2002
	Aug 1995	1,473,362	95p	Aug 1998	Aug 2005
	Aug 1995	67,497*	95p	Aug 2000	Aug 2002
	Apr 1996	1,597,500	130p	Apr 1999	Apr 2006
	Apr 1996	2,047,500*	130p	Apr 2001	Apr 2003

- The performance targets for Number 1 Scheme, Number 2 Scheme and The Plan are identical to the performance targets for the Performance Option Scheme set out on pages 55 to 57.
- The options marked * are super options.

27 Post retirement benefits

- The Group operates a number of pension schemes throughout the world.
- The majority of the schemes are externally funded and the assets are held in separately administered trusts or are insured.
- None of the externally funded schemes holds investments in, or has made loans to, the Company or any of its subsidiary undertakings.
- The major schemes, which cover the majority of scheme members, are defined contribution schemes.
- The pension expense for the year was as follows:

	Year ended 31 Dec 1996 *£ million*	Year ended 31 Dec 1995 *£ million*
Defined benefit schemes*	10.6	3.7
Defined contribution schemes	11.3	12.7
	21.9	**16.4**

* Includes an exceptional termination provision of £8.3 million.

- The Group has only one UK defined benefit scheme with active membership, the Cordiant Group Pension Scheme, details of which are given below.
- In the USA, the Group has only one funded defined benefit scheme, the Saatchi & Saatchi Cash Balance Retirement Plan, details of which are given below. At the last valuation date there was a current funding surplus of $0.3 million (£0.2 million) which is being maintained by additional contributions on a basis recommended by the scheme's actuary. This scheme was frozen at 30 June 1996 and terminated on 31 December 1996. In addition to this there is a supplementary unfunded scheme to provide certain guaranteed benefits to members of a former scheme who were transferred to the main defined benefit scheme.
- The accrued pension expense at 31 December 1996 of $2.1 million (£1.2 million) is provided in the Group balance sheet.

	UK	US
Date of last actuarial valuation	1 April 1996	1 January 1996
Market value of investments	£26.2 million	£24.4 million
Level of funding	109%	101%
Valuation method	Attained age	Projected unit credit
Main assumptions:		
Investment return	9.0%	6.0%
Salary increases per annum	7.0%	5.5%

- In the case of the Saatchi & Saatchi Cash Balance Retirement Plan for the period 1 January 1996 through to 30 June 1996 the expected long-term rate of return on assets was 9.0%. Following the decision to terminate the scheme, the assets were realised and the resulting proceeds reinvested with an expected rate of return of 6.0%.
- The Group has no material liabilities for post-retirement benefits other than pensions.

[redacted]onal information for US investors

The consolidated financial statements have been prepared in accordance with UK generally accepted accounting principles (UK GAAP) which differ in certain significant respects from US generally accepted accounting principles (US GAAP). A summary of material adjustments to the profit (loss) and shareholders' deficit which would be required if US GAAP had been applied instead of UK GAAP is set out below.

(a) Dividends

Under UK GAAP, ordinary dividends proposed are provided for in the year in respect of which they are recommended by the Board of Directors for approval by the shareholders. Under US GAAP, such dividends are not provided for until declared by the Board of Directors.

(b) Goodwill and US purchase accounting

Under US GAAP, goodwill and identifiable intangible assets acquired are capitalised and amortised against income; intangible assets being amortised over their economic lives which range from 3 to 20 years and the remaining goodwill amortised over 40 years. For US GAAP purposes, management review on an annual basis the carrying value of goodwill and identifiable intangibles for impairment by reference to expected future cash flows on an undiscounted basis. If a permanent diminution in the value of such an asset is estimated to have occurred, its carrying value is written down to its estimated fair value.

Under UK GAAP, purchased goodwill arising after ascribing fair values to all tangible assets and liabilities acquired is written off against reserves.

On disposal of a subsidiary, under UK GAAP the gain or loss on disposal is calculated after taking account of goodwill previously written off to reserves. Under US GAAP the gain or loss on disposal is calculated after taking account of any related unamortised goodwill and intangible assets. A GAAP difference arises from amortisation charged under US GAAP for which no equivalent charge has been recognised under UK GAAP.

(c) Property leases

Under US GAAP, total rental payments, inclusive of increases in rental charges specified in the lease, are recognised on a straight line basis over the term of the lease. These increases are recognised when payable under UK GAAP.

(d) Long-term property provisions

Under US GAAP, provisions for properties which are vacant or let at a loss are provided on a discounted basis after allowing for estimated subrental income, and amortisation of the discount is charged to interest expense.

Under UK GAAP, provisions for properties which are vacant or let at a loss are provided on an undiscounted basis, after allowing for estimated subrental income.

(e) Pension settlements

The Statement of Financial Accounting Standards ('SFAS') No. 88, Employers' Accounting for Settlements and Curtailment of Defined Benefit Plans and for Termination Benefits, specifies the accounting treatment under US GAAP for circumstances in which there has been an irrevocable transaction that relieves the employer of primary responsibility for a pension benefit obligation and eliminates significant risks related to the obligation and the assets used to effect the settlement. The Company recorded a charge of £2.0 million in 1994 in respect of settlements resulting from reductions in staff in the USA. As a result of the curtailment and termination of the US scheme during 1996, the related termination liability has been accrued in full under UK GAAP and the additional US GAAP accrual has been released to income.

Additionally, under US GAAP, the Company has previously recognised an additional minimum pension liability for the US underfunded plan, representing the excess of accumulated benefit obligations over the plan's assets. As a result of the curtailment and termination of the plan during 1996, the Company has recorded the full termination liability under UK GAAP and the additional US GAAP accrual has been released to shareholders funds.

(f) Deferred taxation

UK GAAP requires that no provision for deferred taxation should be recorded if there is reasonable evidence that such taxation will not be payable in the foreseeable future.

US GAAP requires full provision of deferred taxation liabilities and permits deferred tax assets to be recognised if their realisation is considered to be more likely than not. There are no deferred taxation differences presented in the reconciliation below because the Company is in a tax loss carry forward position.

(g) Earnings (loss) per Ordinary share

Under UK GAAP, the weighted average number of shares in issue prior to a rights issue is adjusted to reflect the dilutive effect of the rights issue. No equivalent adjustment is made for US GAAP.

(h) Impairment of long-lived assets and long-lived assets to be disposed of

The Company adopted the provisions of SFAS No. 121, Accounting for the Impairment Of Long-Lived Assets To Be Disposed Of, on 1 January 1996. This statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognised is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount of fair value less costs to sell. Adoption of this statement did not have a material impact on the Company's financial position, results of operations, or liquidity.

(i) Employee share schemes

Prior to 1 January 1996, the Company accounted for its stock option plan, under US GAAP, in accordance with the provisions of Accounting Principles Board ('APB') Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. As such, compensation expense was recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. On 1 January 1996, the Company adopted SFAS No. 123, Accounting for Stock-Based Compensation, which permits entities to recognise as expense over the vesting period the fair value of all share-based awards on the date of grant. Alternatively, SFAS, No. 123 also permits entities to continue to apply the provisions of APB Opinion No. 25 subject to certain provisions. The Company has elected to continue to apply the provisions of APB Opinion No. 25.

(j) Prospective accounting changes

(i) In June 1996, the Financial Accounting Standards Board issued SFAS No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS No. 125 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after 31 December 1996 and is to be applied prospectively. This statement provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities based on the consistent application of a financial-components approach that focuses on control. It distinguishes transfers of financial assets that are sales from transfers that are secured borrowings. Management of the Company does not expect that adoption of SFAS No. 125 will have a material impact on the Company's financial position, results of operations, or liquidity.

(ii) SFAS No. 128, Earnings per Share, was issued in February 1997. This statement simplifies the standards for computing earnings per share previously found in APB Opinion No. 15, Earnings per Share, and makes them more comparable to international earnings per share standards. Statement 128 replaces the presentation of primary earnings per share with a presentation of basic earnings per share. In addition, the statement requires dual presentation of basic and diluted earnings per share on the face of the income statement for all entities with complex capital structures and requires a reconciliation of the numerator and denominator of the basic earnings per share computation to the numerator and denominator of the diluted earnings per share computation. The Company has not yet assessed the impact of Statement 128 on its financial statements.

Effect on net earnings (loss) of differences between US and UK GAAP		**Year ended 31 Dec 1996** *$ million*	**Year ended 31 Dec 1996** *£ million*	Year ended 31 Dec 1995 *£ million*
Profit (loss) for the year in conformity with UK GAAP		41.4	24.2	(37.3)
US GAAP adjustments:				
Amortisation of goodwill and other intangibles in accordance with US purchase accounting	(b)	(16.3)	(9.5)	(9.2)
Release of accumulated goodwill amortisation of companies disposed	(b)	–	–	6.2
Straight lining of property leases	(c)	(4.1)	(2.4)	(2.4)
Decrease in long-term property provisions	(d)	0.5	0.3	2.7
Amortisation of discount on property provisions	(d)	(12.8)	(7.5)	(7.0)
Pension settlements	(e)	3.1	1.8	0.2
Net profit (loss) applicable to Ordinary shareholders in conformity with US GAAP		**11.8**	**6.9**	**(46.8)**
Net profit (loss) per Ordinary share	(g)	2.7¢	1.6p	(20.2)p
Average number of Ordinary shares (in millions)		443.6	443.6	232.2

Year end dollar exchange rate to £1: US$1.71.

Cumulative effect on shareholders' deficiency of differences between US and UK GAAP		**31 Dec 1996** *$ million*	**31 Dec 1996** *£ million*	31 Dec 1995 *£ million*
Equity shareholders' funds in conformity with UK GAAP		(368.2)	(215.3)	(224.9)
US GAAP adjustments:				
Dividends	(a)	7.5	4.4	–
Goodwill and US purchase accounting in respect of acquisitions	(b)	338.9	198.2	190.3
Straight lining of property leases	(c)	(37.4)	(21.9)	(21.9)
Discount on property provisions	(d)	58.5	34.2	43.0
Pension liability adjustment	(e)	–	–	(5.5)
Ordinary shareholders' deficiency in conformity with US GAAP		**(0.7)**	**(0.4)**	**(19.0)**

Year end dollar exchange rate to £1: US$1.71.

Five-year summary *in accordance with UK GAAP*

	Year ended 31 Dec 1992 £ million	Year ended 31 Dec 1993 £ million	Year ended 31 Dec 1994 £ million	Year ended 31 Dec 1995 £ million	Year ended 31 Dec 1996 £ million
Revenue from continuing activities	731.2	806.0	775.4	761.1	754.9
Net operating expenses	(661.4)	(728.2)	(705.2)	(686.8)	(681.1)
Depreciation	(25.2)	(29.2)	(25.7)	(25.7)	(25.8)
Trading profit on continuing activities (excluding exceptional items)	**44.6**	**48.6**	**44.5**	**48.6**	**48.0**
Severance and reorganisation	(10.0)	(19.1)	–	(20.3)	
Property provisions	–	2.3	–	–	(8.2)
Closure of pension plan	–	–	–	–	(8.3)
Write-down of goodwill	(600.0)	–	–	–	
Operating profit (loss) on continuing activities	**(565.4)**	**31.8**	**44.5**	**28.3**	**31.5**
Disposal of subsidiaries (including sales of art)	1.8	(3.6)	–	(34.3)	17.8
Profit (loss) on continuing activities	**(563.6)**	**28.2**	**44.5**	**(6.0)**	**49.3**
Discontinued activities	(13.8)	3.6	1.3	4.0	–
Profit (loss) before interest and tax	**(577.4)**	**31.8**	**45.8**	**(2.0)**	**49.3**
Net financial items	(17.7)	(12.6)	(13.4)	(20.6)	(7.5)
Profit (loss) before taxation	**(595.1)**	**19.2**	**32.4**	**(22.6)**	**41.8**
Taxation	(13.4)	(10.6)	(14.6)	(11.9)	(14.8)
Profit (loss) after taxation	**(608.5)**	**8.6**	**17.8**	**(34.5)**	**27.0**
Equity minority interests	(5.2)	(1.3)	(3.9)	(2.8)	(2.8)
Profit (loss) for the year	**(613.7)**	**7.3**	**13.9**	**(37.3)**	**24.2**
Earnings (loss) per share:					
Basic	(282.2)p	2.9p	4.9p	(12.8)p	5.5p
IIMR	(1.0)p	3.9p	4.4p	(2.4)p	1.4p
Adjusted earnings	3.6p	8.2p	4.4p	5.2p	5.2p
Average shares (millions)	217.5	254.8	283.0	292.4	443.6
Average exchange rate £1=US$	1.77	1.50	1.53	1.58	1.56
Revenue at 1996 average exchange rates excluding businesses disposed of	693.3	700.4	718.9	735.4	754.9
Net financial liabilities (including net debt, finance leases and contingent capital payments)	248.6	160.0	154.2	38.0	43.1
Closing exchange rate £1=US$	1.51	1.48	1.56	1.55	1.71
Financial ratios (based on trading profit on continuing activities excluding exceptional items):					
Trading margin	6.1%	6.0%	5.7%	6.4%	6.4%
Net interest cover before exceptional items	2.5	3.9	3.3	2.9	6.4
Share price (in pence):					
High	178.5	144.0	137.0	116.0	138.0
Low	84.0	104.0	100.5	64.5	90.5
Closing	110.5	104.0	116.0	90.5	103.0

Glossary of terms

As this document is available to readers around the world, the following information is provided to assist in understanding the terms used.

PLC
UK designation of a public limited company.

The Company
The ultimate holding company of the Group, Cordiant plc.

The Group
Refers to Cordiant plc and its subsidiary undertakings.

Billings
The sum of media billed, together with charges for materials and services.

Revenue
Commissions earned from media billings plus the fees and the mark-up on materials and services charged to clients. In the USA the term "Gross Income" may be used.

Operating profit
Sales less costs of goods sold or services rendered, selling, general and administrative expenses, research and development and before financial items. In the USA, the term "Operating Income" may be used.

Operating margins
Operating profit expressed as a percentage of revenue.

Discontinued activities
Operations that are sold or permanently terminated during the period or within three months after the start of the subsequent period; and that have a material effect on the nature and focus of the operations and represent a material reduction in the operating facilities; and the assets, liabilities, results of these operations and activities are clearly distinguishable, physically, operationally and for financial reporting purposes.

Minority interests
Partial ownership of subsidiary undertakings by outside shareholders.

Earnings (loss) per Ordinary share
Calculated by dividing the earnings (loss) attributable to Ordinary shareholders by the adjusted average number of Ordinary shares in issue during the year.

American depositary receipts/shares (ADRs/ADSs)
ADRs provide US residents wishing to invest in overseas securities with a type of certificate and dividend payments in a form familiar to them, and the ability to trade avoiding the delays and high costs of dealing abroad. Cordiant ADRs are issued by The Bank of New York as depositary agent and each ADR represents three Ordinary shares. They are traded in the USA on the New York Stock Exchange in the same manner as shares in US public companies.

UK/US equivalents – debtors and creditors
Debtors are equivalent to Receivables and Creditors to Payables.

Goodwill
The difference between the fair value of purchase consideration of a business as a whole and the aggregate fair value of its separable net tangible assets.

Network offices
The number of offices given for a network and the countries in which a network operates include non-equity affiliates.

Shareholder and Corporate information

Shareholder information

Financial calendar

Interim Statements for half years ending 30 June are issued in August.

Preliminary announcements of results for financial years ending 31 December are issued in March.

Annual Reports are posted to shareholders in April/May.

The Annual General Meeting is held in London in May/June.

The dividend will be paid in July to Ordinary shareholders on the Register in June.

UK Payment of Dividends by BACS

Cordiant plc has adopted the Bankers Automated Clearing Service (BACS) for the UK payment of dividends. This means that your dividend entitlement is credited to your bank account and the tax voucher is sent directly to your registered address.

If you would like to have your dividends paid in this way rather than by cheque, please complete the mandate form, which can be obtained from our Registrars, send it to your bank with a request that they verify it and then return it to the Registrars.

Capital Gains Tax

The trading in shares was temporarily suspended on 31 March 1982. Therefore the Company does not have an official share price quotation for that date.

Listings

The Company's Ordinary shares are quoted on The London Stock Exchange and the Paris Bourse. The American Depositary Receipts are quoted on the New York Stock Exchange.

Geographical analysis of Ordinary shareholders

As at 31 December 1996, it was estimated that the Ordinary shares were beneficially held in the geographic areas shown below:

The list of holders of record is materially different to this analysis.

	1996
North America	43.0%
UK	45.7%
Rest of Europe	4.6%
Asia Pacific	2.5%
Unknown	4.2%

Shareholder enquiries

If you have a general share enquiry, changed address or have lost a certificate, please contact our Registrars at the applicable address:

Ordinary shares and loan stock:

The Royal Bank of Scotland PLC
Registrars Department
PO Box 82
Caxton House
Redcliffe Way
Bristol, BS99 7NH
United Kingdom
Tel: (44) 117 930 6549

American Depositary Receipts (ADRs):

Bank of New York
Investor Relations Department
101 Barclay Street
11 East
New York, NY 10286
United States
Tel: 800 524 4458 (US residents)
Tel: (1) 212 815 5800

Corporate information

Cordiant plc

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Tel: (44) 171 436 4000

Cordiant Holdings Inc.

375 Hudson Street
New York
NY 10014 - 3620
United States
Tel: (1) 212 463 4000

Officers

Christopher Bunton (Group Treasurer)
Graham Howell (Company Secretary and General Counsel)
David Weatherseed (Group Controller)

Auditors

KPMG Audit Plc

Lawyers

Macfarlanes (London)
White & Case (New York)

Investor relations contact

Timothy Jackson, Director of Investor Relations

Public Relations Advisers

College Hill (London)
Rowland Worldwide (New York)

[redacted] of meeting

Notice is hereby given that the Annual General Meeting of Cordiant plc will be held on 20 May 1997 at 11am at the Royal Institute of British Architects, 66 Portland Place, London W1, to transact the business described herein.

Ordinary business

1) To receive the financial statements of the Company for the year ended 31 December 1996 and the Directors' and Auditor's Reports thereon.

2) To declare a final dividend of 1p per Ordinary share in respect of the year ended 31 December 1996 payable on 1 July 1997 to those Ordinary shareholders registered at the close of business on 2 June 1997.

3) To re-elect the Directors, details of whom are set out in the Directors' Report on pages 60 – 62.

4) To reappoint KPMG Audit Plc as auditor of the Company until the next Annual General Meeting and to authorise the Directors to fix their remuneration.

Special business to consider the following resolutions as special resolutions:

Resolution 1. THAT, in accordance with Section 95(1) of the Companies Act 1985, the Directors be and are hereby given power to allot equity securities pursuant to the authority conferred by paragraph 1.1 of Resolution 1 passed at the Extraordinary General Meeting of the Company held on 18 June 1996 as if sub-section (1) of Section 89 of the Companies Act 1985 did not apply to any such allotment, provided that:

a) the power hereby conferred shall be limited to the allotment of equity securities in connection with or pursuant to an offer by way of rights to the holders of Ordinary shares and other persons entitled to participate therein, in proportion (as nearly as may be) to such holders' holdings of such shares (or, as appropriate, to the numbers of such shares which such other persons are for those purposes deemed to hold) subject only to such exclusions or other arrangements as the Directors may feel necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body in, any territory; and

b) the power granted by this Resolution shall expire on the date of the next Annual General Meeting of the Company after the passing of this Resolution or on 19 August 1998 if earlier, save that the said power shall allow and enable the Directors to make an offer or agreement before the expiry of that power which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the said power had not expired. Words and expressions defined in or for the purposes of Part IV of the Companies Act 1985 shall bear the same meaning in this Resolution.

Resolution 2. THAT, in accordance with Section 95(1) of the Companies Act 1985 and in addition to any power conferred by the passing of Resolution No. 1 set out in the notice of this meeting, the Directors be and are hereby given power to allot equity securities pursuant to the authority conferred by paragraph 1.1 of Resolution 1 passed at the Extraordinary General Meeting of the Company held on 18 June 1996 as if sub-section (1) of Section 89 of the Companies Act 1985 did not apply to any such allotment, provided that:

a) the power hereby conferred shall be limited to the allotment of equity securities up to an aggregate nominal amount of £5,500,000; and

b) the power granted by this Resolution No.2 shall expire on the date of the next Annual General Meeting of the Company after the passing of this Resolution or on 19 August 1998 if earlier, save that the said power shall allow and enable the Directors to make an offer or agreement before the expiry of that power which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the said power had not expired. Words and expressions defined in or for the purposes of Part IV of the Companies Act 1985 shall bear the same meaning in this Resolution.

A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote in his stead. A white proxy form is enclosed for this purpose. A proxy need not be a member of the Company. Completion and return of a proxy form will not prevent a member from attending and voting at the Annual General Meeting.

To have the right to attend or vote at the meeting (and also for the purpose of calculating how many votes a person entitled to attend or vote may cast), a person must be entered on the register of members by no later than 11am on 18 May 1997, being 48 hours before the time fixed for the meeting. Changes to entries on the register after this time will be disregarded in determining the rights of any person to attend or vote at the meeting.

The instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed must be deposited at the offices of the registrars of the Company, The Royal Bank of Scotland PLC, Registrars' Department, PO Box 82, Caxton House, Redcliffe Way, Bristol BS99 7YA, not less than forty-eight hours before the time for holding the Annual General Meeting.

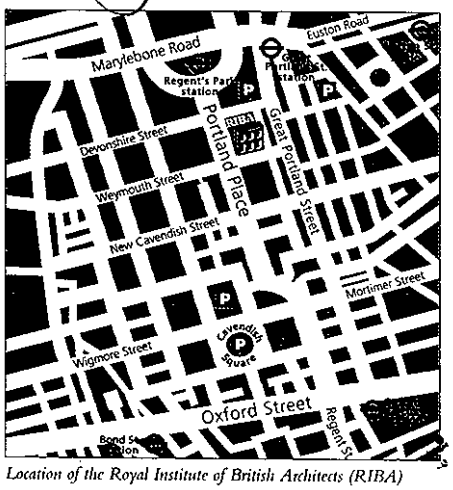
There will be available for inspection at the registered office of the Company during the usual business hours on any weekday (Saturdays and public holidays excluded) from the date of this notice until the date of the Annual General Meeting and at the place of the Annual General Meeting from at least fifteen minutes prior to and until the conclusion of the Annual General Meeting:

a) Copies of Directors' service contracts with the Company or any of its subsidiaries; and

b) the Register of Directors' Interests.

by Order of the Board

Graham Howell, Company Secretary
83/89 Whitfield Street, London W1A 4XA
26 March 1997



Location of the Royal Institute of British Architects (RIBA)

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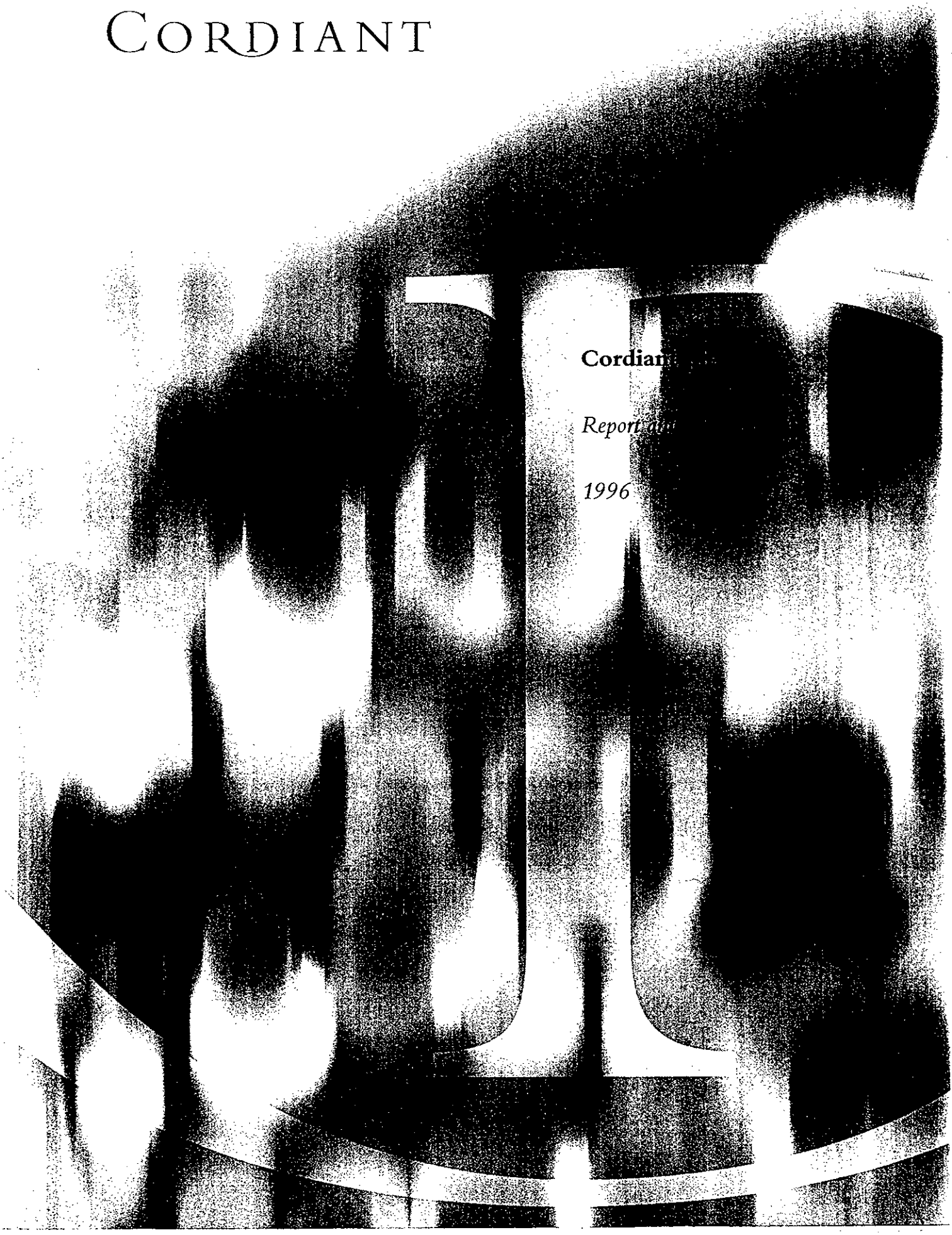

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