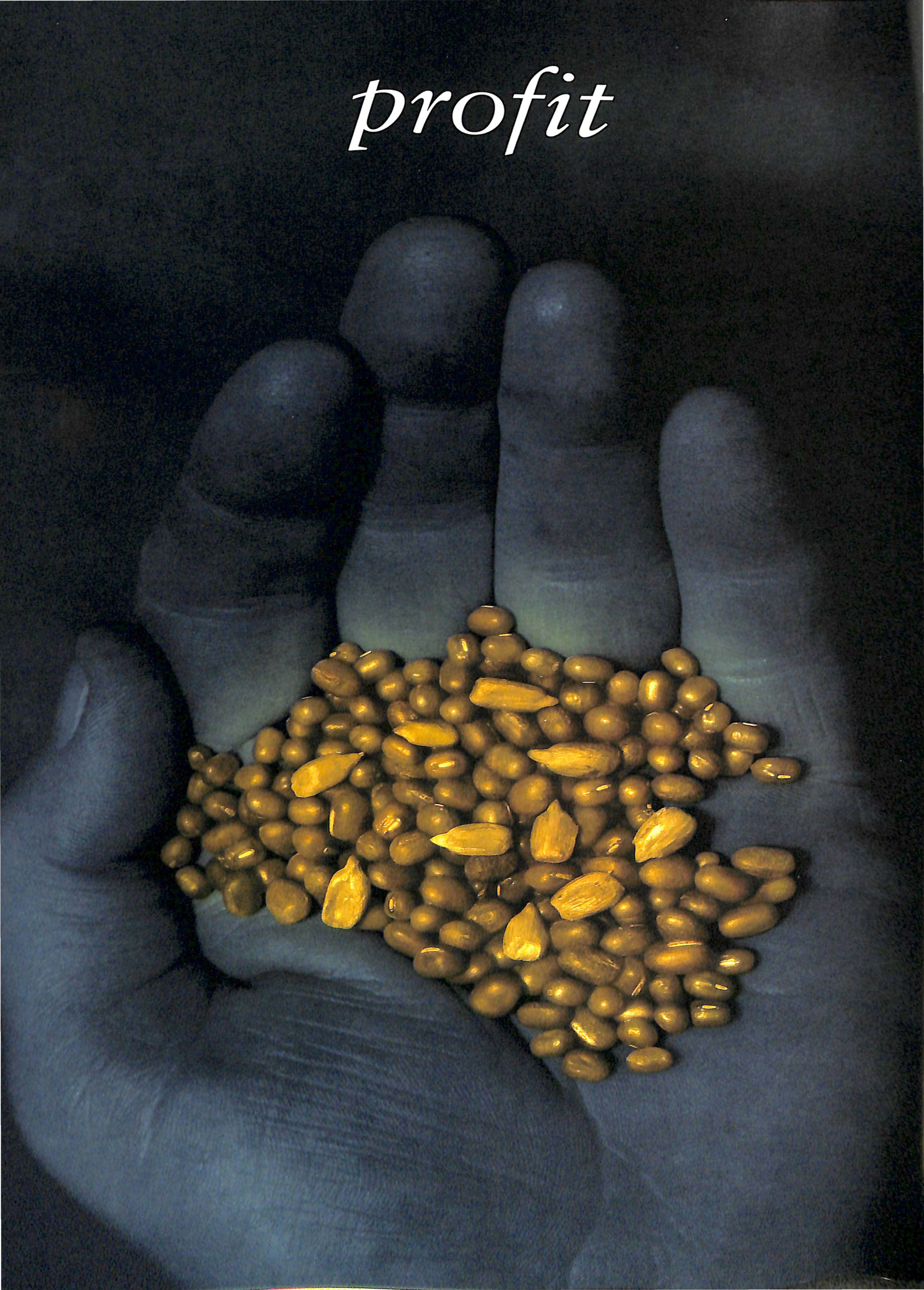
WPP Group plc

Annual Report and Accounts 1994

Contents

The WPP Group and Marketing Services
What We're About

To develop and manage **talent**; to apply that talent, throughout the **world**, for the benefit of clients; to do so in **partnership**; to do so with **profit**.

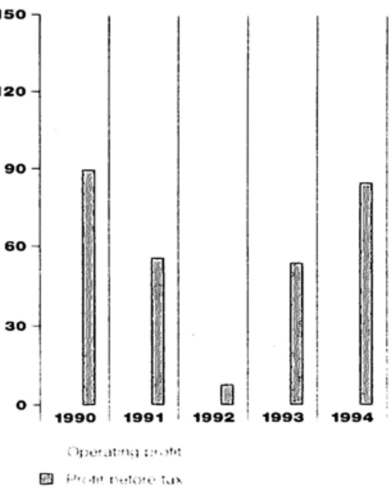

profit

Financial summary

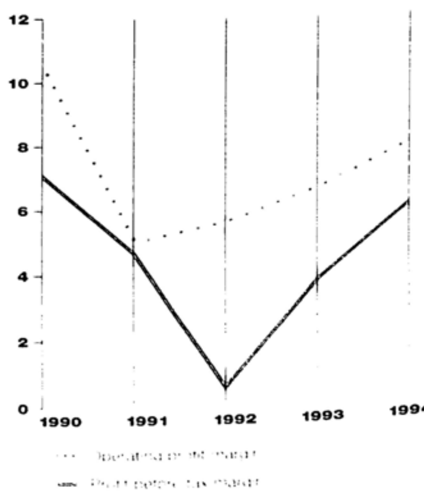
WPP is pleased to report another year of good, solid progress; the third in a row since the recession of the early 1990s. The Group is well-placed for a record trading performance in 1995, its tenth year.

	1994	1993	%increase/ (decrease)
Turnover	**£6,014m**	£6,030m	**(0.3)**
Revenue	**£1,427m**	£1,431m	**(0.3)**
Operating profit	**£112m**	£95m	**18.0**
Operating profit margin	**7.9%**	6.7%	**17.9**
Profit before tax	**£85m**	£54m	**56.8**
Fully diluted earnings per share	**6.5p**	3.4p	**91.2**
Dividends per ordinary share	**1.135p**	1.0p	**13.5**
Net debt at year end	**£38m**	£84m	**(54.6)**
Average net debt	**£268m**	£339m	**(20.9)**
Share price at year end	**109.0p**	89.0p	**22.5**
Market capitalisation	**£785.3m**	£463.2m	**69.5**

Operating profit and profit before tax (£m)

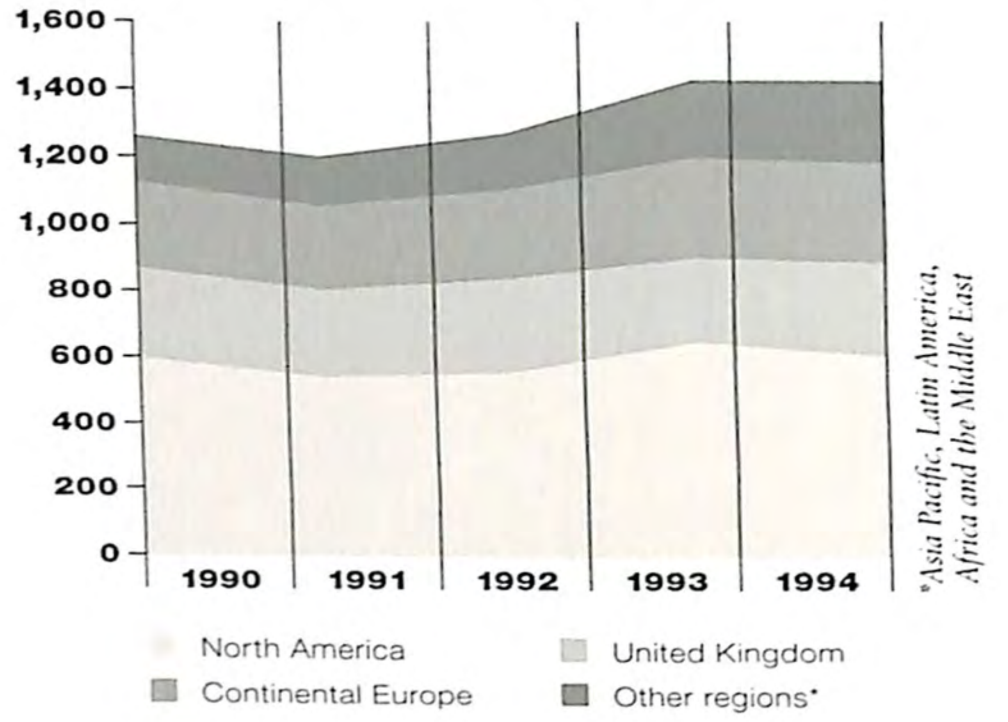


Operating profit margin and profit before tax margin (%)

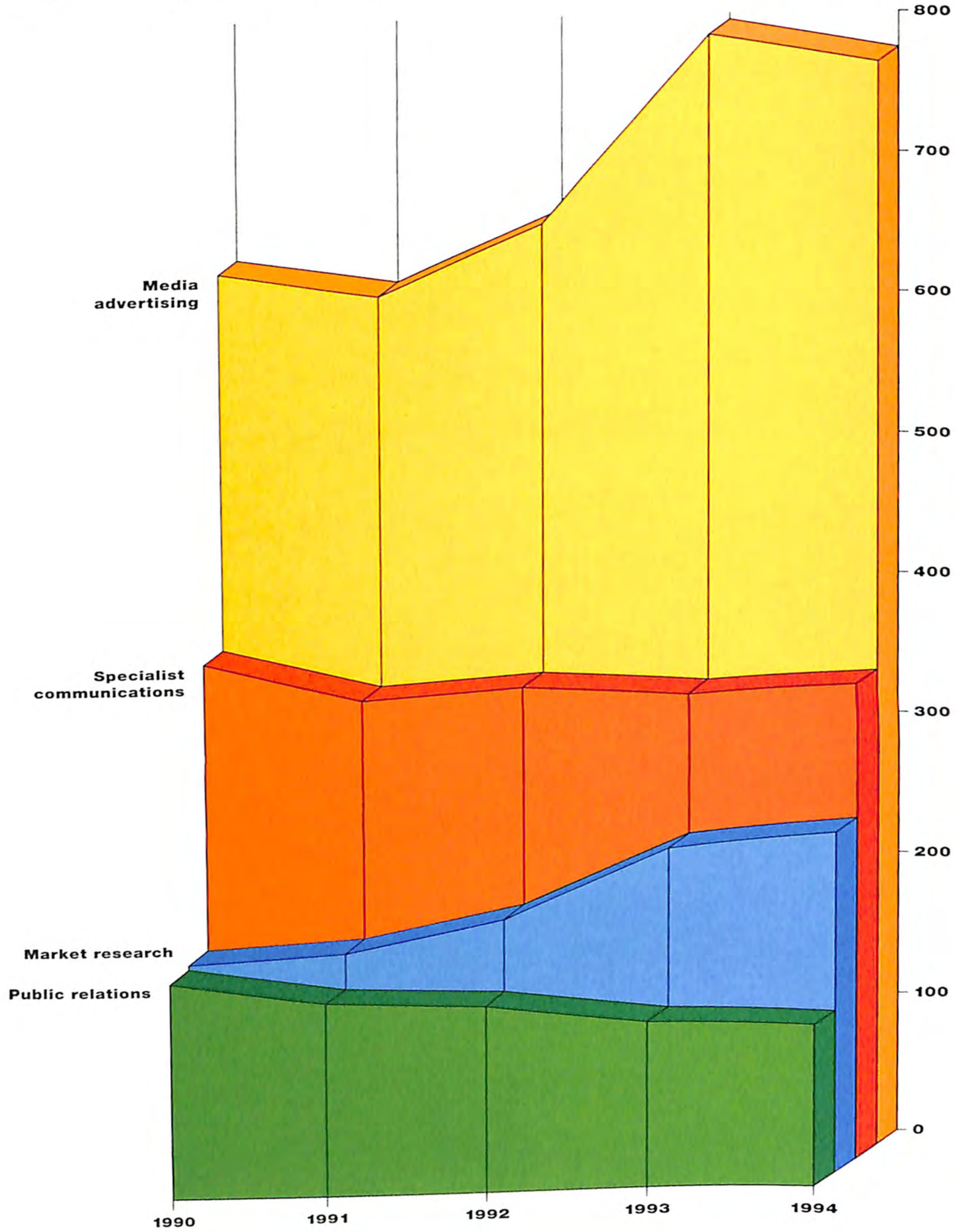


WPP financial highlights

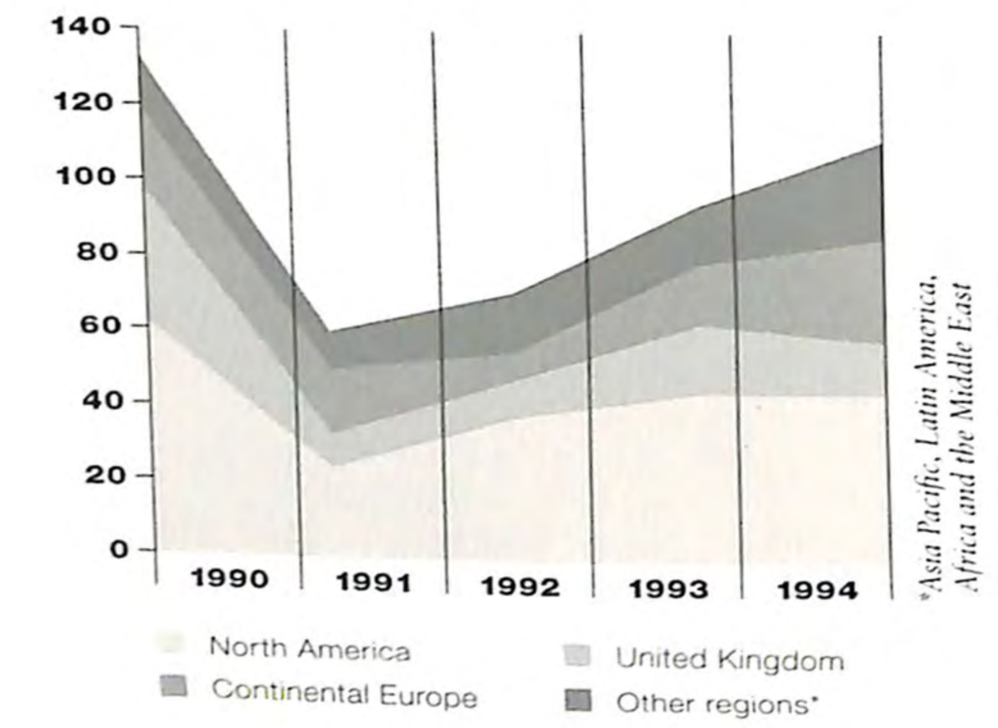
Revenue by geography (£m)



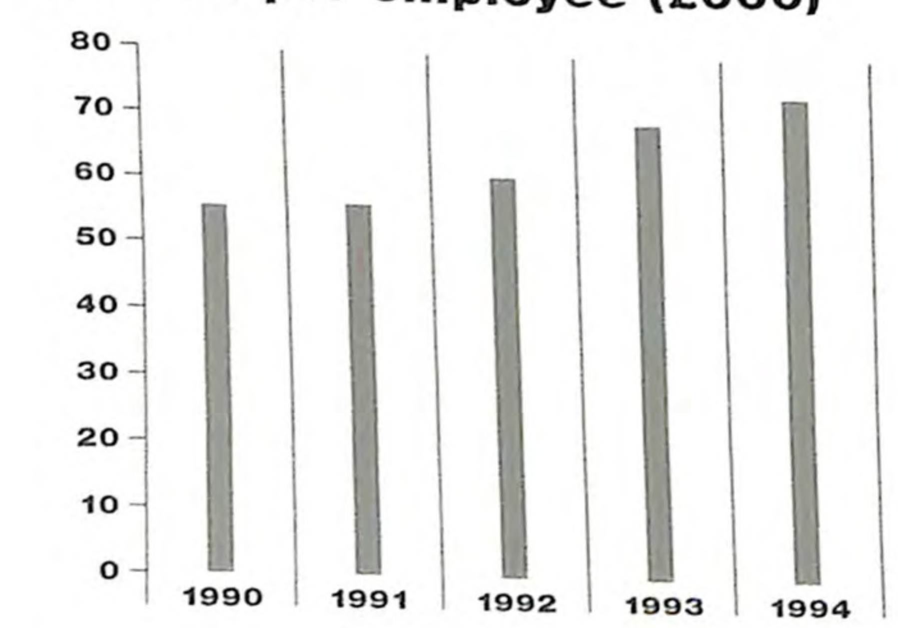
Revenue by sector (£m)



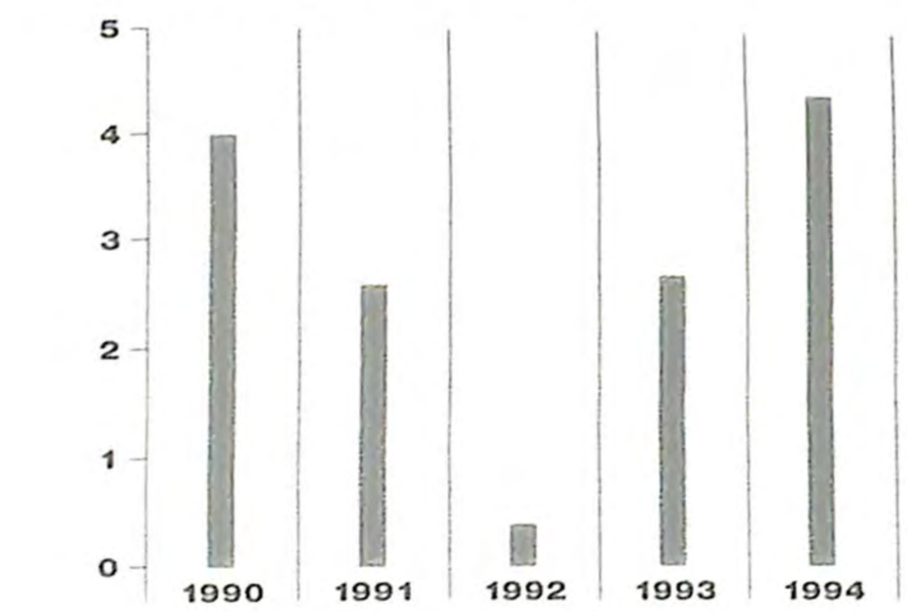
Operating profit by geography (£m)



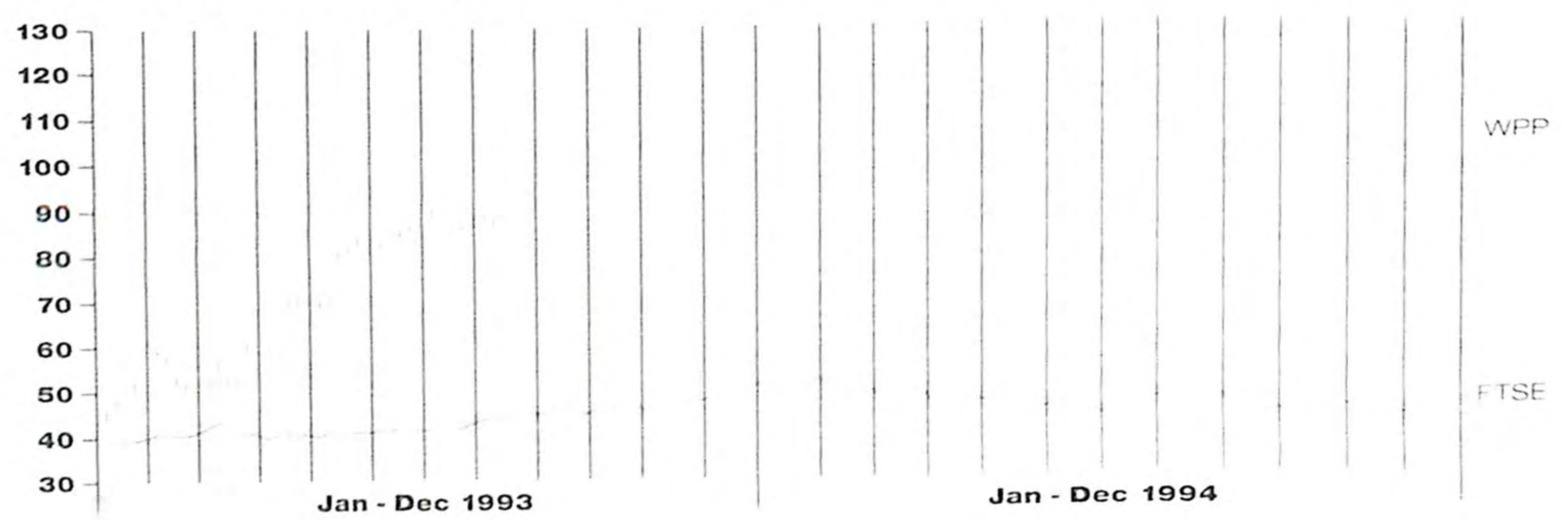
Revenue per employee (£000)



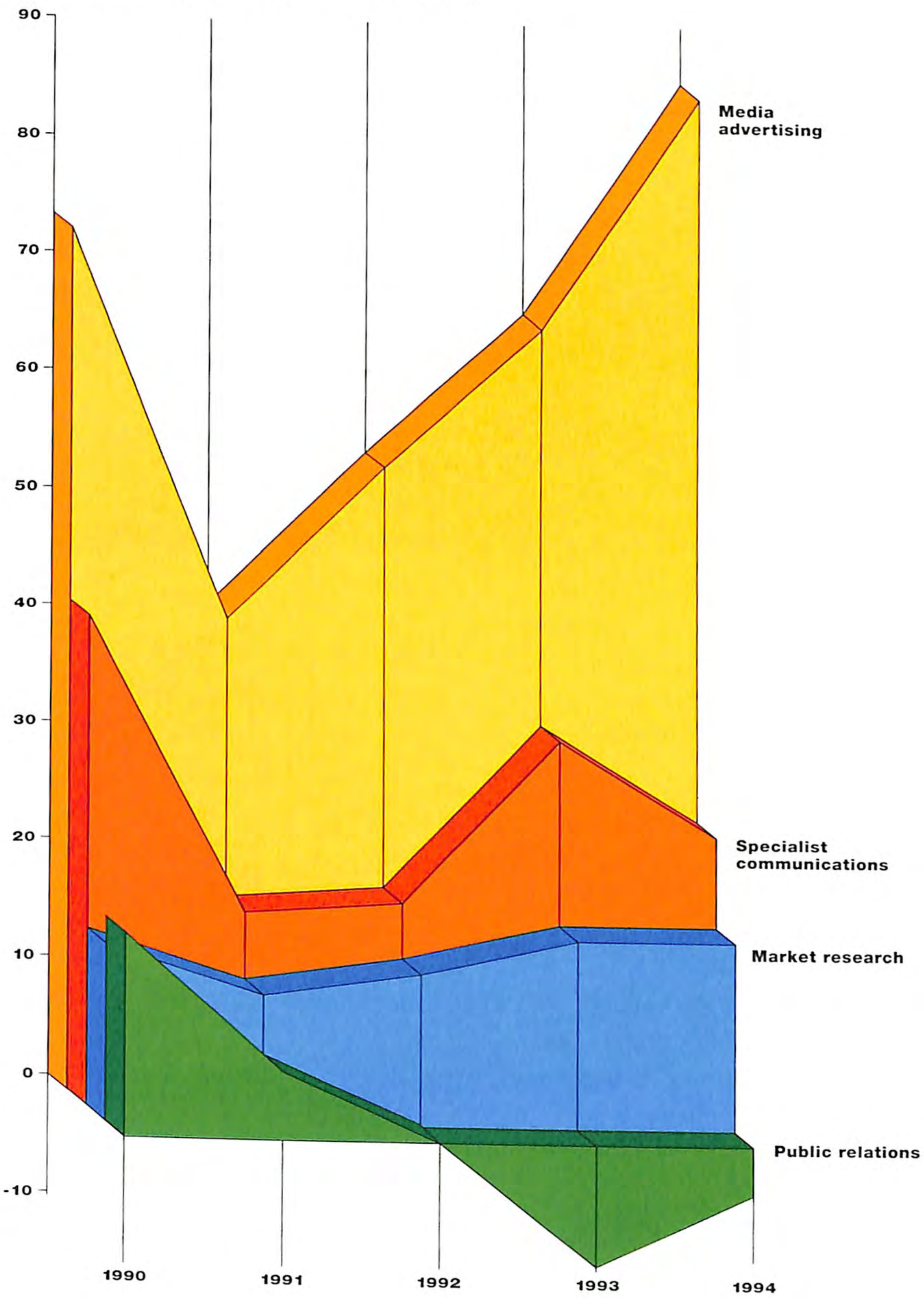
Profit before tax per employee (£000)



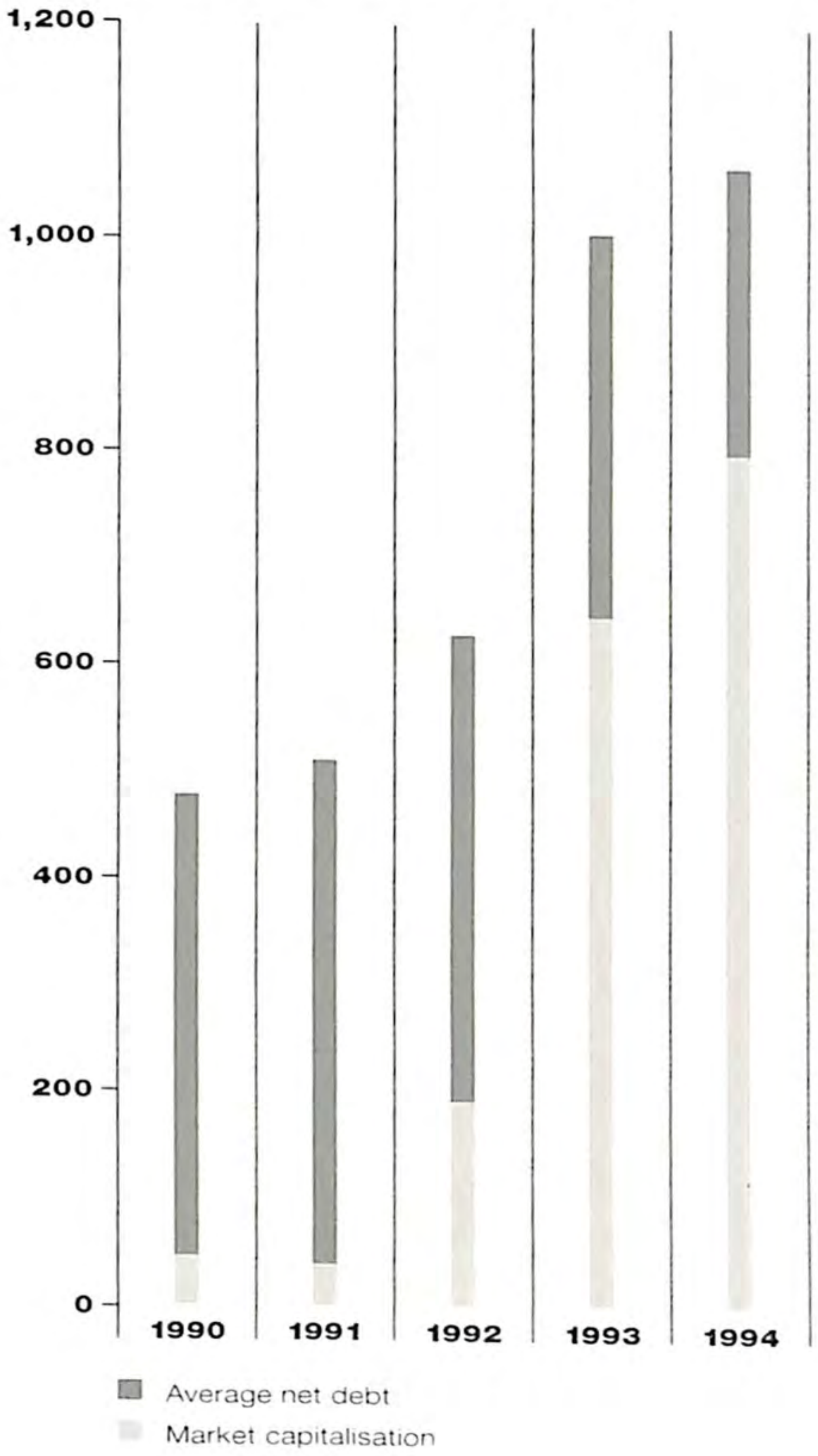
WPP share price (p) vs re-based FTSE All Share Index



Operating profit by sector (£m)

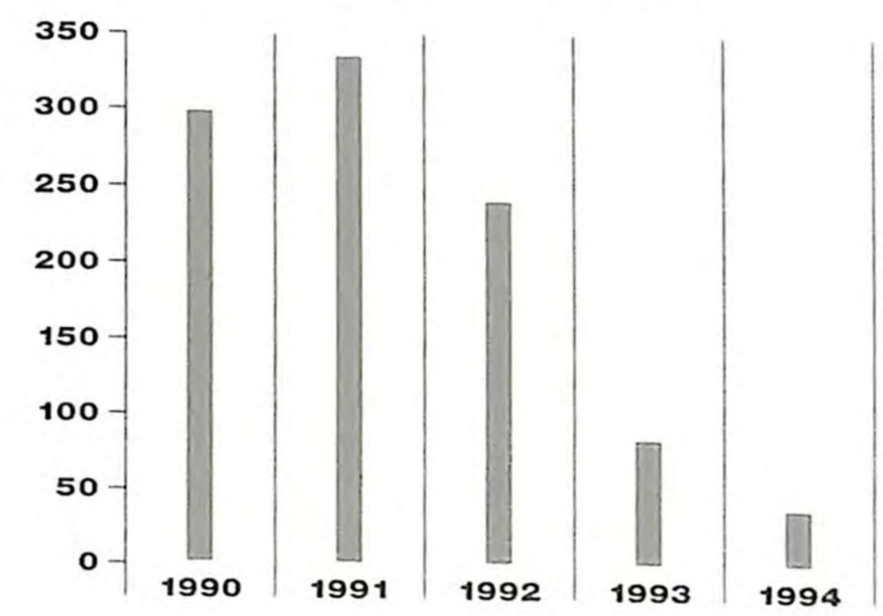


Group capitalisation (£m)

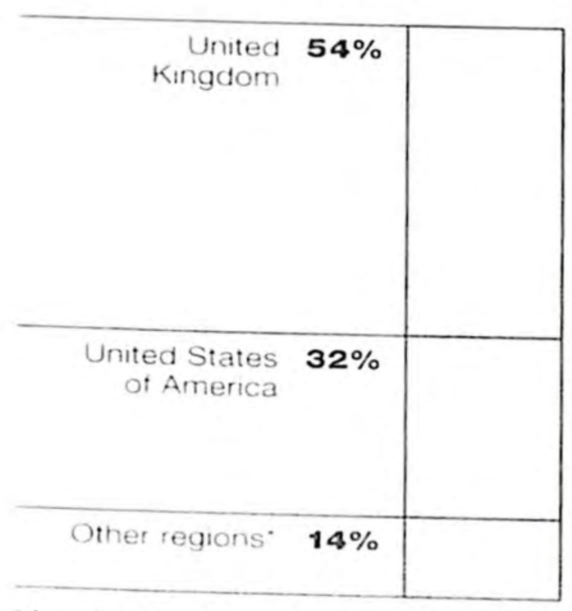


Market capitalisation shown is based on the diluted number of shares at year end (31 December) share prices

Net debt at year end (£m)

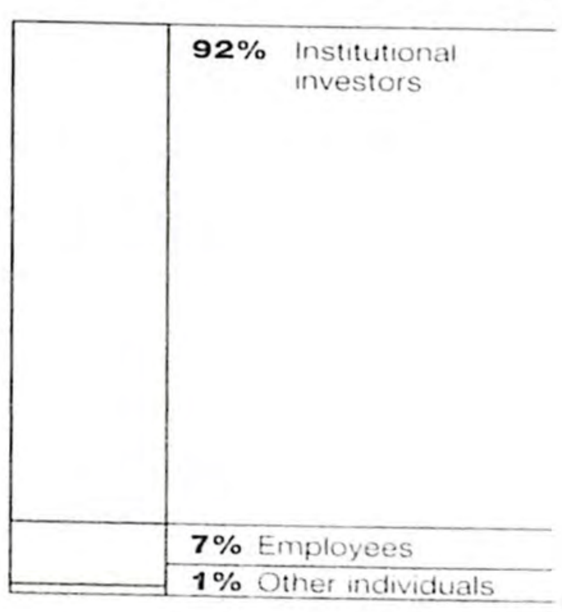


Share owners by geography

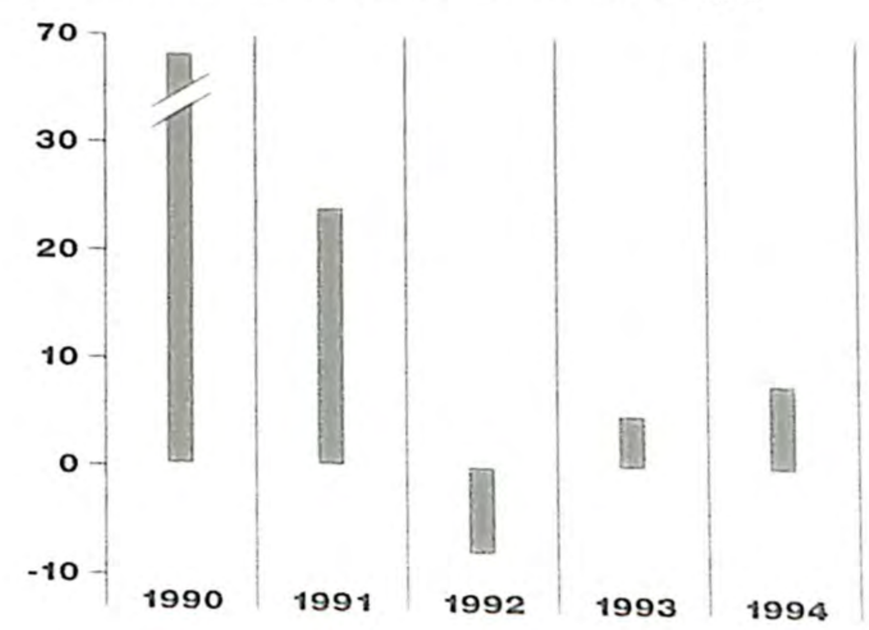


Asia Pacific, Latin America, Africa and the Middle East and Continental Europe

Share owners by type



Basic earnings per share (p)




world

WPP's central objective remains the provision of the highest level of client service in both the developed and the emerging markets worldwide.

In 1994, as in the previous two years, the worldwide marketing services industry continued to expand. Further strength in the United States was reinforced by increased activity in most of Europe. High growth continued in Asia Pacific and Latin America, apart from Venezuela and Mexico. Economic prospects improved, thanks in part to the political progress made, in Africa and the Middle East. Prospects were less certain in Canada and in Central and Eastern Europe.

During the year, there were signs of a change in the balance of client investment towards main-media advertising. WPP believes that this is due to the increased level of economic activity in the mature markets and to increasing focus by clients on brand differentiation to achieve revenue growth as cost reductions become more difficult.

Our worldwide position

While we do not seek to grow for growth's sake, the Group's business is becoming increasingly multinational as the US and the UK grow more slowly when compared to our performance in other markets.

Approximately 330 national or multinational clients employed WPP's services across at least three disciplines and 60 of these employed our four principal services. We work with over 100 clients across six or more countries and with more than 300 of the Fortune 500 companies.

In the faster growing markets, we are better placed competitively than any other group. In each of the 10 fastest growing markets, WPP is in the top four companies. In the largest markets, we retain our traditionally strong position.

Rank in 10 largest markets

	WPP
USA	1
Japan	12
Germany	3
UK	1
France	7
Canada	3
Australia	5
Netherlands	2
Italy	4
Switzerland	3

Rank in 10 fastest growing markets

	WPP
China*	1
Greece	1
Thailand	2
Philippines	2
Mexico	2
South Korea	4
Indonesia	2
Chile	1
Colombia	2
India	1

Source: Zenith, Goldman Sachs, Advertising Age
**Includes Hong Kong*

At the end of 1994, the Group had 778 offices in 78 countries. Overleaf, we demonstrate our presence in the mature and emerging markets of the world, together with charts illustrating the potential growth for these regions over the next four years.

New in 1994

Asia Pacific

In India, **J. Walter Thompson Company** increased its stake in associate offices. In China, **Research International** now has local associates in Guangzhou, Shanghai, Beijing and Chengdu. **Millward Brown** opened an office in Hong Kong. **Ogilvy & Mather Worldwide** has opened an office in Vietnam. **Ogilvy & Mather Worldwide** established an operation in Tokyo.

North America

WalkerGroup/CNI opened an office in St Louis, Missouri. **Ogilvy & Mather Direct** opened an office – in 1995 – in Raleigh, North Carolina.

Latin America

J. Walter Thompson Company took full ownership of its office in Colombia. **Ogilvy & Mather Worldwide** has a new office in Guyana and **Ogilvy & Mather Direct** opened in Chile. **Conquest** opened in Brazil.

Western Europe

Research International has opened new offices in Brussels and Milan. **Millward Brown** has new offices in Rome and Milan. **EWA** has opened offices in Amsterdam, Antwerp and Neuss in Germany.

Eastern Europe

J. Walter Thompson Company has started a joint venture in Russia, and now has affiliate offices in Bulgaria, Romania, and – from 1995 – in Slovenia. The agency also has a new partner in the Czech Republic. **Conquest** opened an office in Poland. **Hill and Knowlton** opened an office in Estonia.

Middle East and Africa

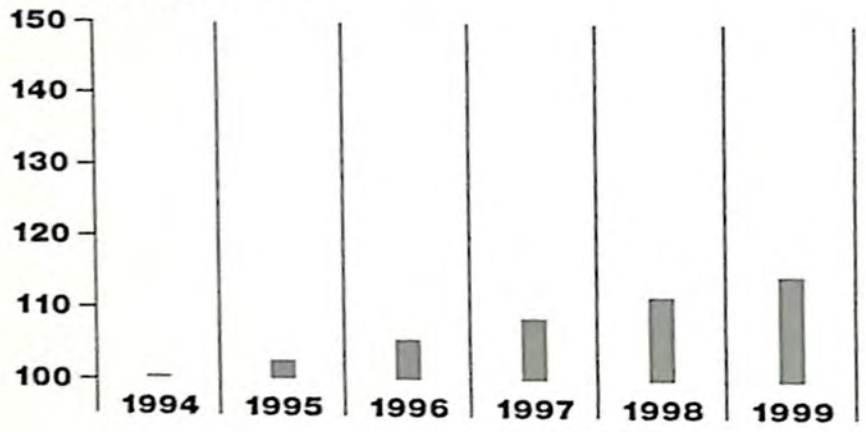
Research International has a new associate with three offices in Turkey. **J. Walter Thompson Company** was one of the first agency networks since the peace accord to establish a partnership in Israel and, in South Africa, the agency strengthened its position. In Jordan, **Ogilvy & Mather Worldwide's** affiliate, **MEMAC**, has a new office. **Ogilvy & Mather Worldwide** has a new office in Cyprus.

WPP worldwide

Western Europe

268 offices in: Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey and the UK.

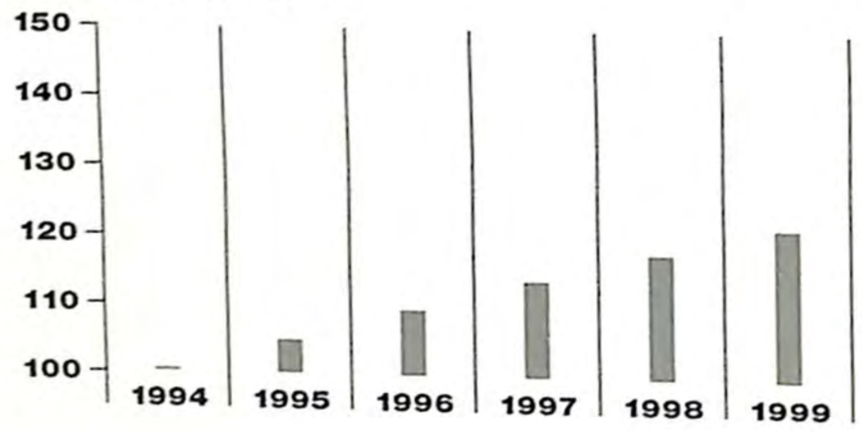
Forecast real GDP



Eastern Europe

27 offices in: Bulgaria, Croatia, Czech Republic, Hungary, Estonia, Federal Republic of Yugoslavia, Poland, Romania, Russia, Slovakia and Slovenia.

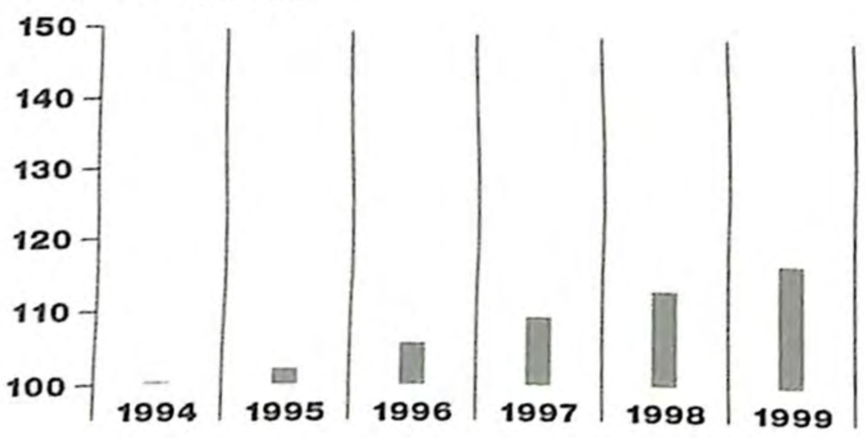
Forecast real GDP



Africa and the Middle East

40 offices in: Bahrain, Egypt, Ghana, Israel, Jordan, Kenya, Kuwait, Lebanon, Morocco, Nigeria, Saudi Arabia, South Africa, United Arab Emirates and Zimbabwe.

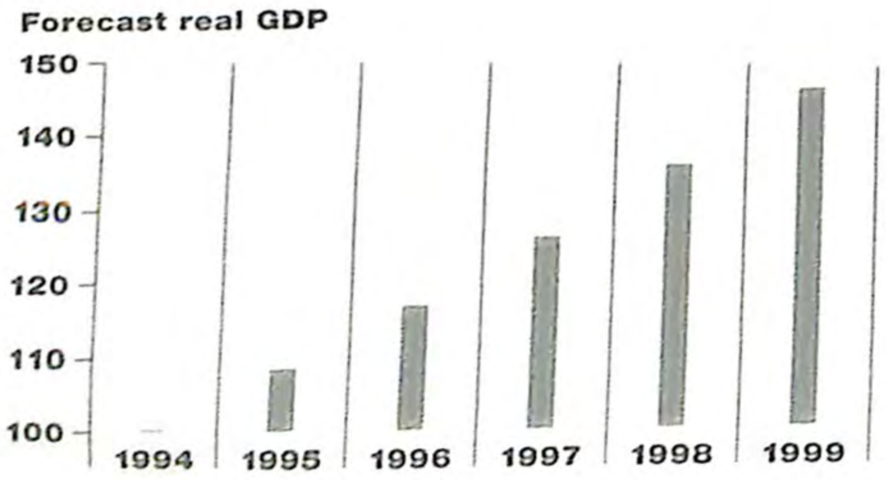
Forecast real GDP



Asia Pacific

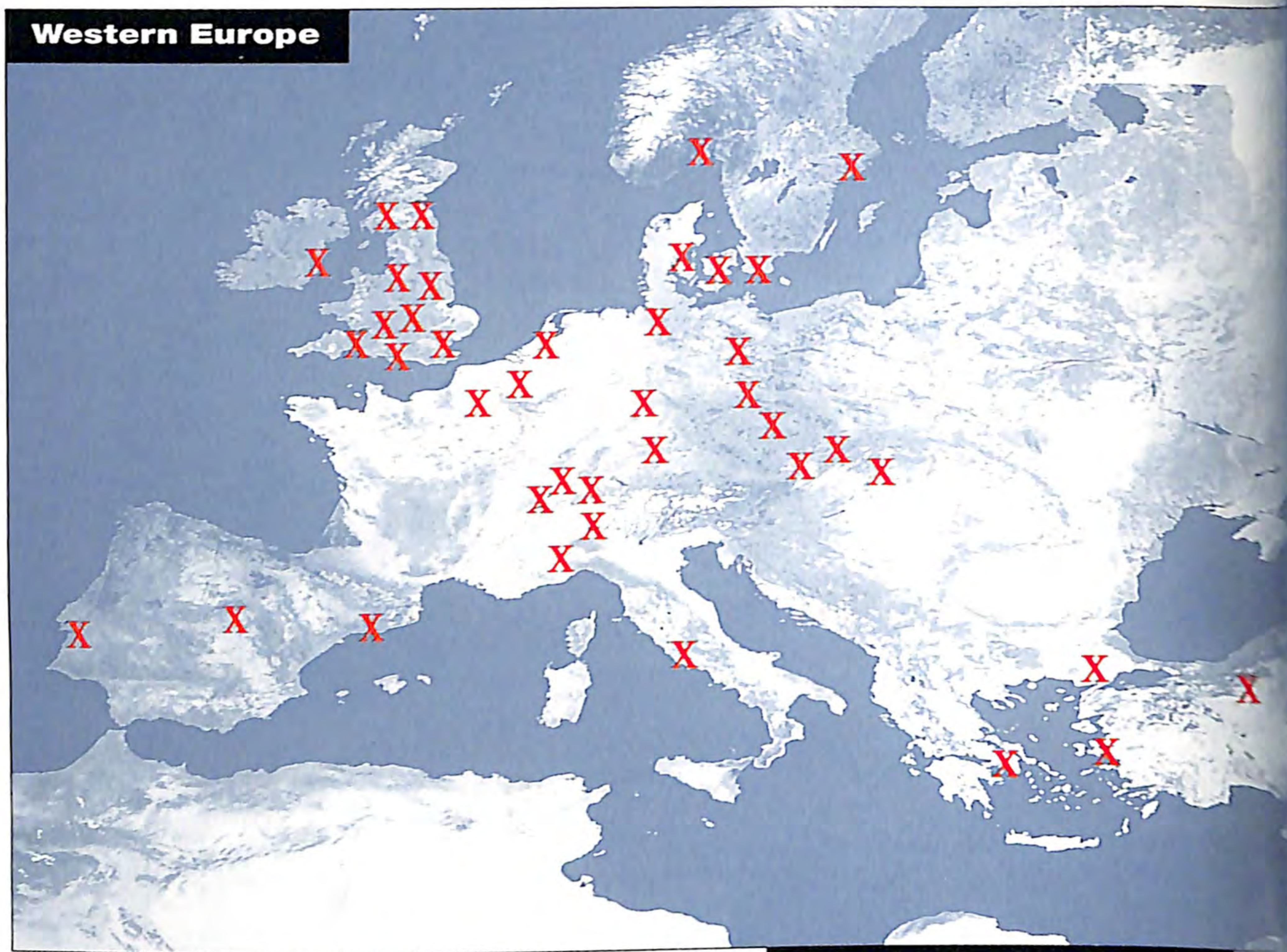
119 offices in: China, Hong Kong, India, Indonesia, Korea, Malaysia, Pakistan, Philippines, Singapore, Sri Lanka, Taiwan, Thailand and Vietnam.

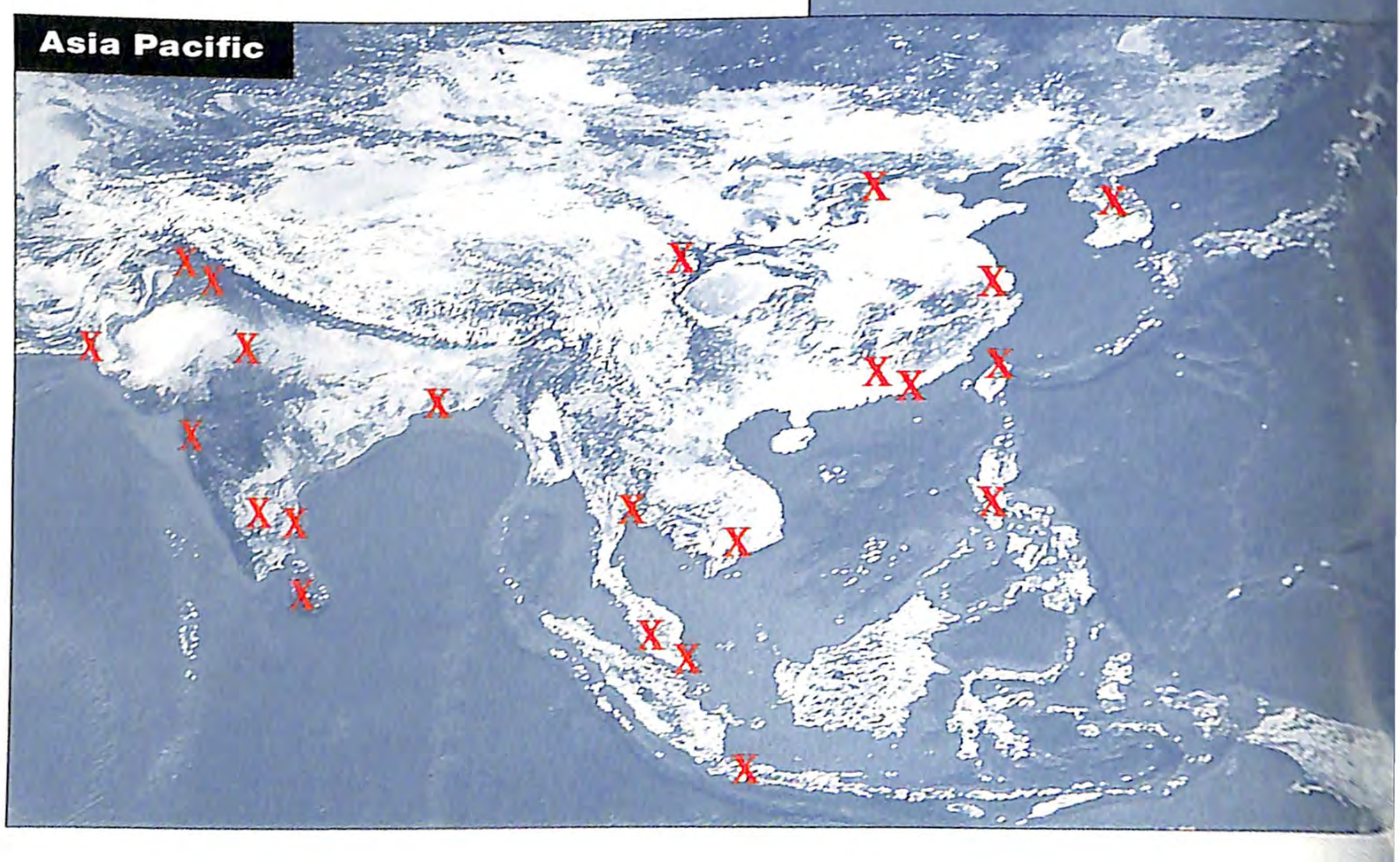
Forecast real GDP

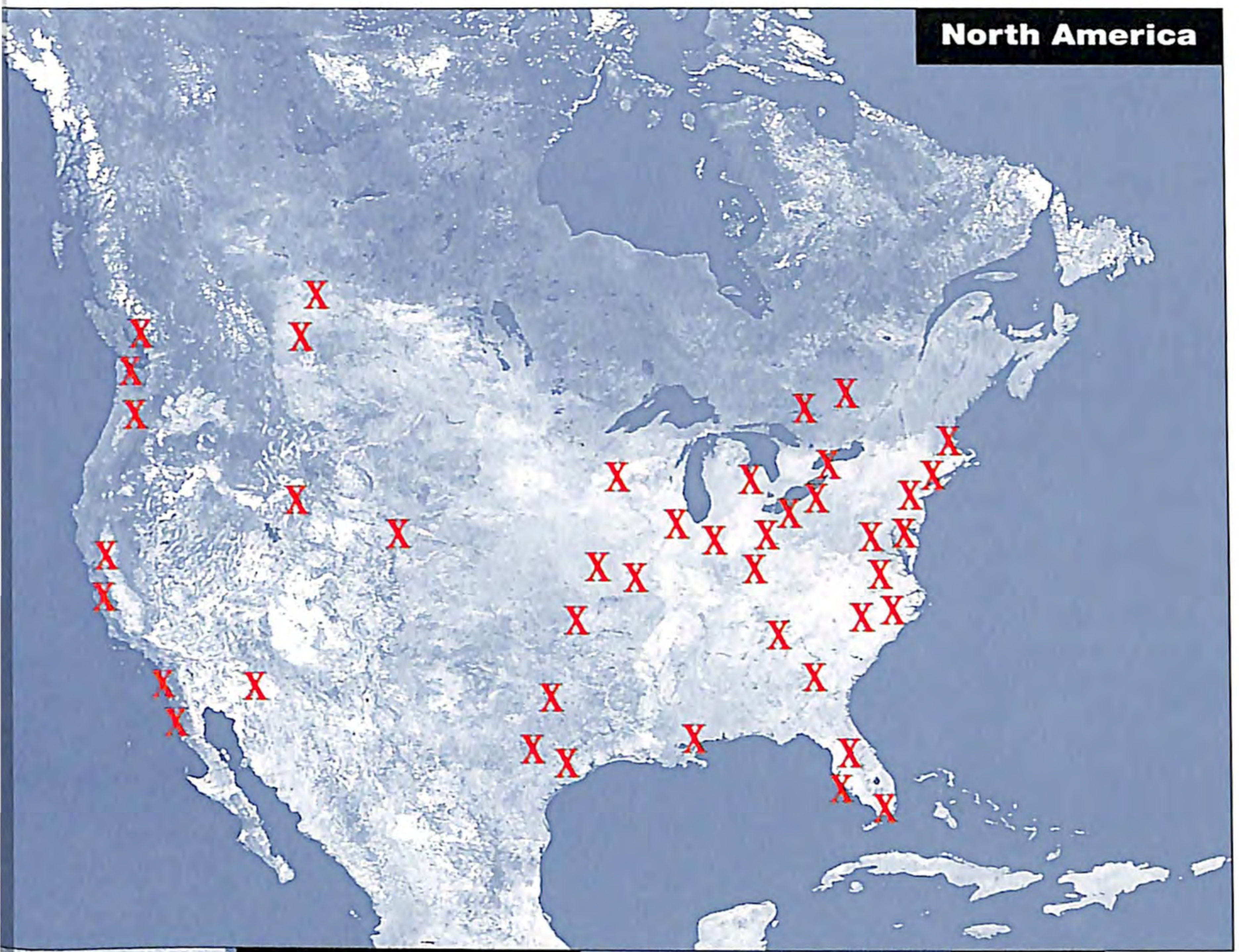


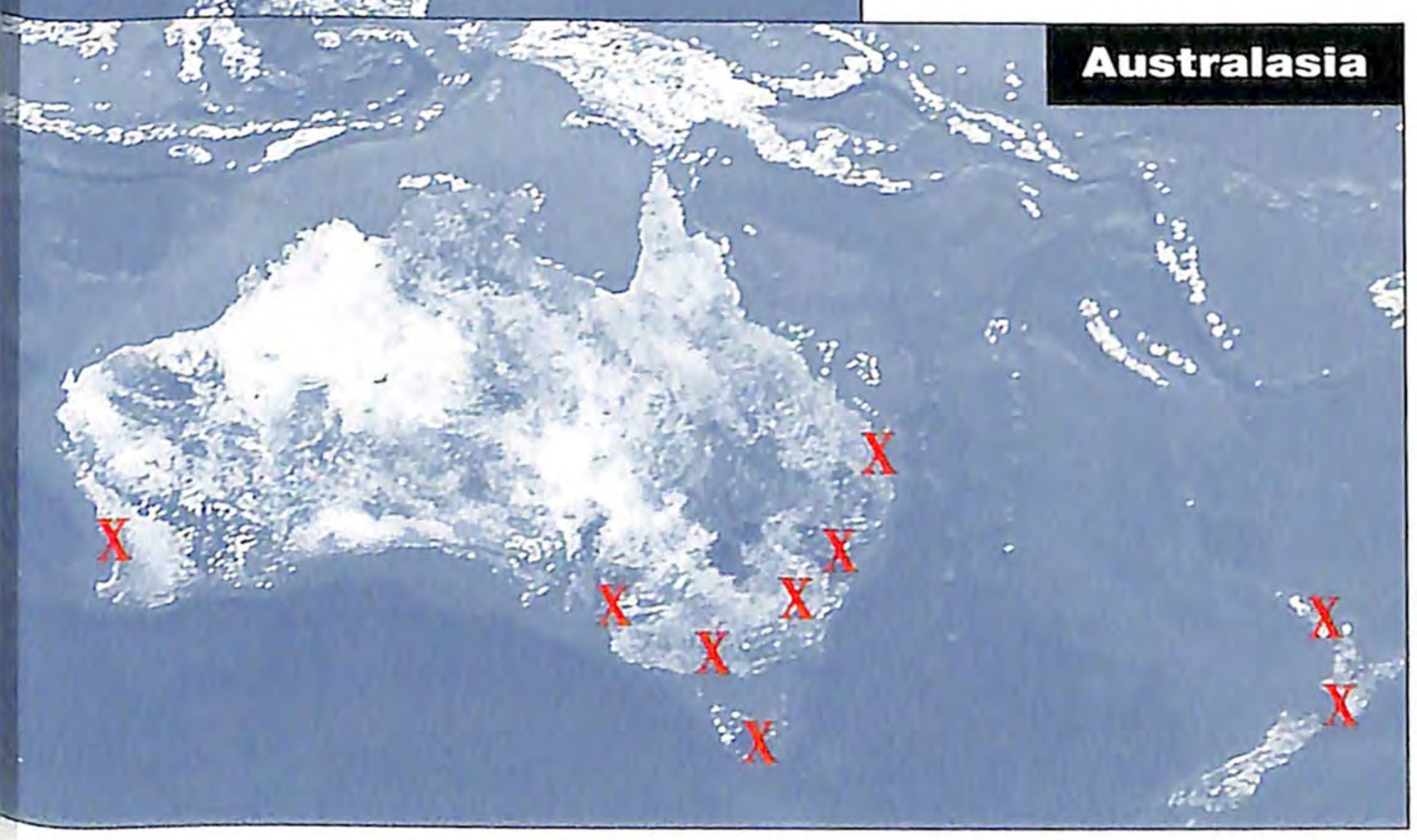
Servicing clients in developed and emerging markets.

X City locations at April 1995.





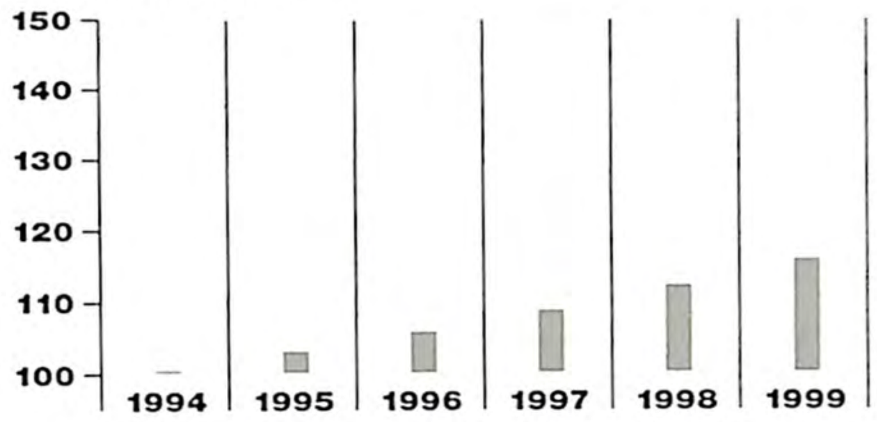




North America

179 offices in: Canada, the US and the US Virgin Islands.

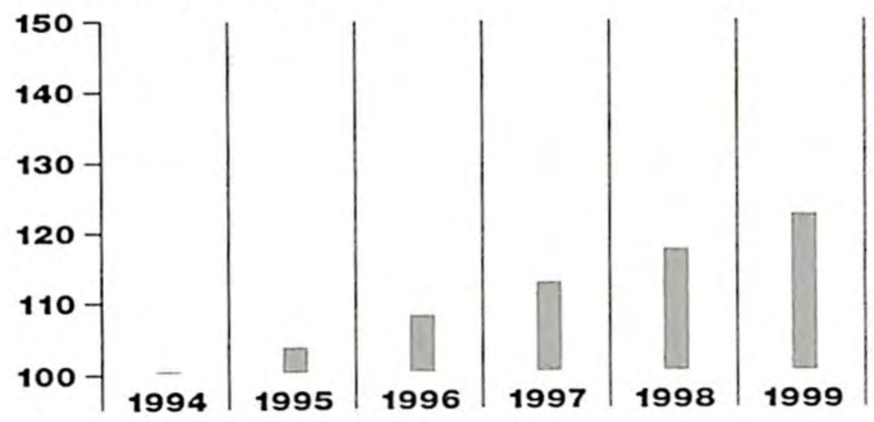
Forecast real GDP



Latin America*

93 offices in: Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Puerto Rico, Trinidad & Tobago, Uruguay and Venezuela.

Forecast real GDP

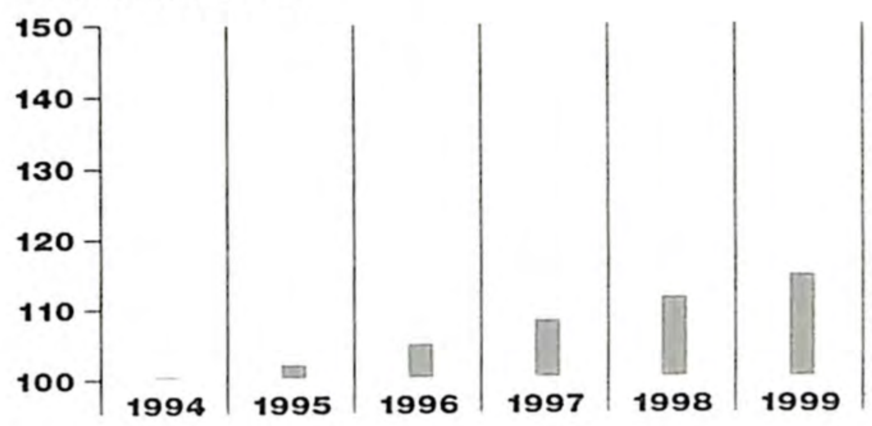


*Including Central America

Japan

9 offices in: Osaka and Tokyo.

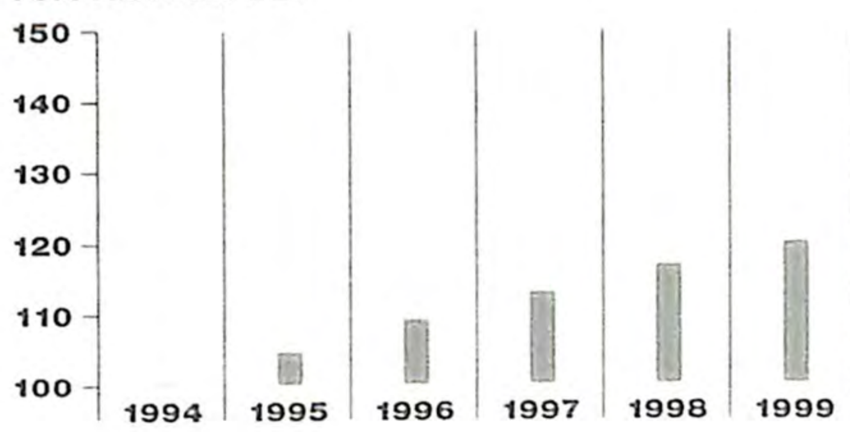
Forecast real GDP



Australasia

43 offices in: Australia and New Zealand.

Forecast real GDP



Source for GDP information:
The Henley Centre, OECD, EIU, WPP estimates
Data is indexed based on forecast real GDP growth, 1994=100


talent
number
10

WPP Group's clients have access to an unparalleled pool of worldwide talent.

Talented companies

The marketing services industry – especially the advertising sector – is notorious for the number of awards it makes each year to individuals and to companies. Nonetheless, it is always rewarding to be singled out by fellow professionals and competitors.

■ For the second year running, J. Walter Thompson Company has been named Asia Agency of the Year by *Media*, the Asian trade paper.

■ Ferguson Communications Group was voted the Most Admired Agency by peers for the third consecutive time by *MedAdNews* in the US.

■ Ogilvy & Mather Worldwide was named East Agency of the Year and Southeast Agency of the Year in the US by *Adweek* magazine.

■ For the ninth consecutive year, Ogilvy & Mather Direct has won more Echo Awards (the Oscars of their business) from the Direct Marketing Association in the US, than any other agency.

■ J. Walter Thompson Company continued its 10 year dominance of the results-based Effie Awards given by the American Marketing Association.

■ In an industry round-up of interactive expertise, *Advertising Age* ranked Ogilvy & Mather Direct 'undisputed leader among agencies blazing a trail into interactivity'. J. Walter Thompson Company came equal second.

Talented individuals

One of the ways in which we can attract and retain the best talent to the Group is to offer the most imaginative training programmes. The better trained our people are, the better the service we can offer to all our clients worldwide.

■ J. Walter Thompson Company and Ogilvy & Mather Worldwide both have long-established and much-admired training schemes, ranging from craft skills seminars and masterclasses to interdepartmental weekends, regional seminars and job exchange programmes with client companies.

■ Hill and Knowlton and Ogilvy Adams & Rinehart, which each run comprehensive internal programmes on best professional practice, are co-operating in a joint programme to advance general management skills.

■ J. Walter Thompson Company is offering bright students in China the chance to work on summer projects in the local office, to give them a taste for the business.

■ Hill and Knowlton has established a scholarship at the Beijing Broadcasting Institute, China's leading university for television and radio journalists, with an offer of summer internships for two students each year.

■ In Cape Town, WPP sponsors two black South African students each year, enabling them to complete a one-year finishing course at the Red & Yellow School for Aspirant Advertising Art Directors, Designers & Copywriters. →

First for WPP

The WPP Marketing Fellowships

This programme is designed to attract and develop high-calibre management talent to our industry by offering unique multi-disciplinary work experience.

The Fellowships seek to attract the best graduates each year, offering them a three year tenure, with the opportunity to work for one year in each of three different marketing disciplines within Group companies such as advertising, market research, public relations, identity and design, and strategic marketing services.

In addition, three clients – Ford, Guinness and Unilever – have agreed to participate in the programme.

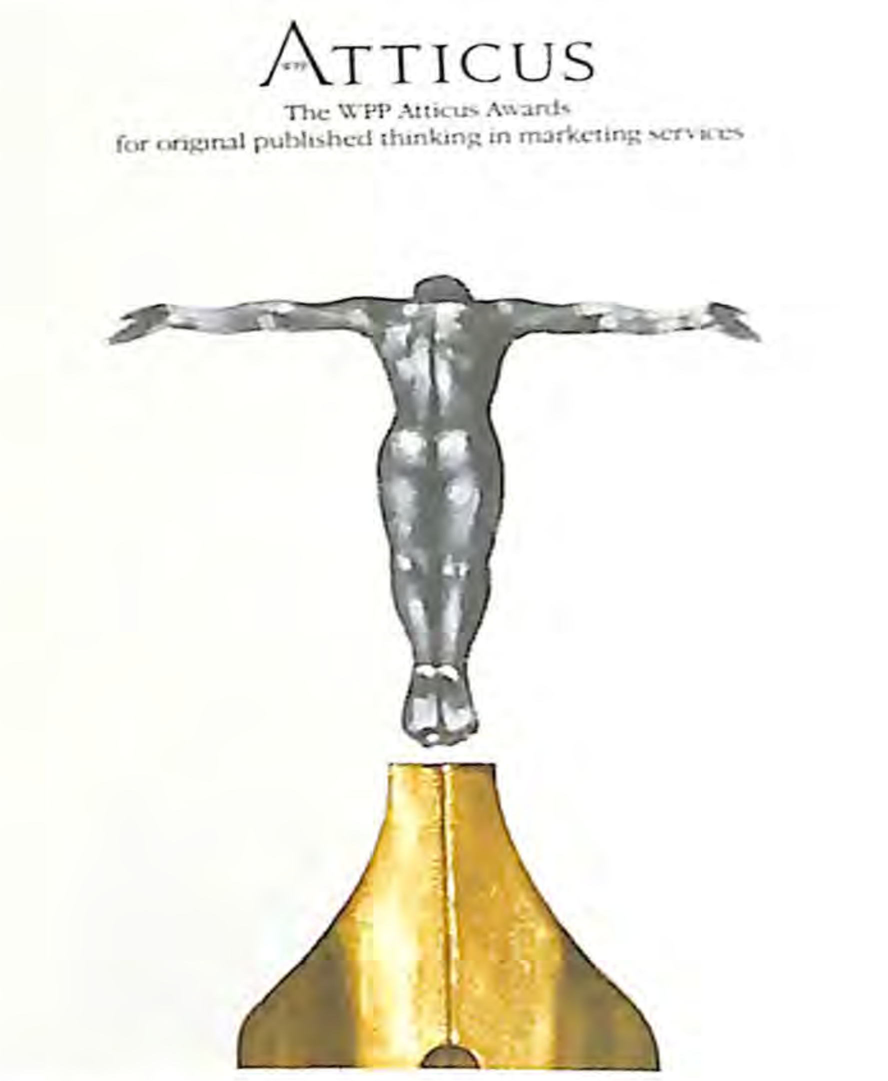
WPP Fellows will be paid a competitive salary with a substantial performance-related bonus and, at the end of the Fellowship, they will be expected to take up a permanent position with one of the Group companies.

The first five WPP Marketing Fellows have now been appointed for 1995, after a successful 'test market' this year at Cambridge University *(launch poster below)*. The Fellowships will now be extended to other UK universities and to a selection of American universities for entry in 1996. Beyond that, WPP plans to offer Fellowships to graduates from universities in Continental Europe, Asia Pacific and Latin America.

Our brands

First for WPP

The WPP Atticus Awards



In 1994, WPP introduced the Atticus Awards to honour professional excellence for original published thinking in marketing services *(promotional literature above)*. The objective is to reward our people for thinking originally about professional subjects, and for carrying this through to enhance their own company's reputation in public. The scheme is open exclusively to Group employees and offers cash prizes totalling US$45,000, plus wider exposure of the winning submissions. The judges for 1994 were Professor John McArthur, Dean of Harvard University Graduate School of Business Administration (chair), Sir Michael Perry, chairman of Unilever and Dr Hubert Burda, chairman of Burda Media. Winning submissions will be made known during the second half of the year. Meanwhile, 1995 Atticus entries are already being encouraged.

The School, launched in 1994 by Ogilvy & Mather Rightford Group, is unique in being backed by a single advertising agency to train new creative people for the benefit of the entire industry in their country.

Rewarding and developing talent

To keep the most talented individuals, we must offer an exciting career, and also the appropriate and competitive rewards for achievement. On a performance-related basis, our people are among the best-rewarded in the business. We are a young group, with many managers in their 30s.

- WPP has recently formed The 100 Club of top-performing worldwide management to motivate, incentivise and encourage partnership amongst the people who will most influence our future.
- Our younger high flyers are being sent to business schools and we are developing new training programmes to keep them highly motivated.
- Cross-company training courses designed to develop and share best practice have recently been introduced. Our people are exposed to the very best thinking from clients, professional services firms and their colleagues.

The WPP Partnership Awards

Many of our clients are looking to increase revenues, margins and market share through the progressive co-ordination of their activities – including marketing services. WPP welcomes this trend.

As we continue to invest in cross-discipline training, information technology and practice development, so the Group's unique range of skills (19,000 people of many different disciplines) is increasingly being co-ordinated for the benefit of clients. Furthermore, from 1995 onwards, WPP will be offering Partnership Awards, which will honour and promote examples of Group co-operation which can be seen to have added value to client activities. Details will be announced shortly.

The goals of WPP

- **To be the leading multinational marketing services company**
- **To understand and satisfy the increasingly complex marketing needs of our clients at every level from local to worldwide.**
- **To provide clients with a comprehensive and, when appropriate, integrated range of marketing services of the highest quality: both strategically and tactically.**
- **To ensure that each service provided to every client returns added value.**
- **To grow and maintain companies of such excellence that they provide the most stimulating career opportunities for talented professionals in all disciplines.**
- **To provide those professionals with rewards and incentives which encourage a sense of ownership.**

WPP's marketing services

Media advertising

Full service advertising agency activities – provided largely by two of the world's top agency networks – account for the lion's share, just over 50%, of WPP's marketing activities and revenues. Marketing services groups with which the Group is most often compared are dominated by advertising, which provides more than 80% of their activities and revenues.

Our agencies specialise in the planning, production and placing of advertising for both national and multinational clients in all categories, from radio commercials and posters to print and interactive television commercials. They often work in partnership with other Group companies to provide clients with specialist communications or integrated communications planning.

Market research

Marketplace information and knowledge is increasingly important to clients and is in demand throughout the world.

WPP contains three major market research companies, each with its own particular area of expertise. Together they create the largest custom research group worldwide, from which clients can access a complete range of research services. These include consumer, media, corporate communication and policy research; advertising research, pre-testing, tracking and evaluation; design and management of international market studies; new product development and testing; 'brand health' tracking, sales and media modelling. Worldwide co-ordination offers clients both economies and international comparability.

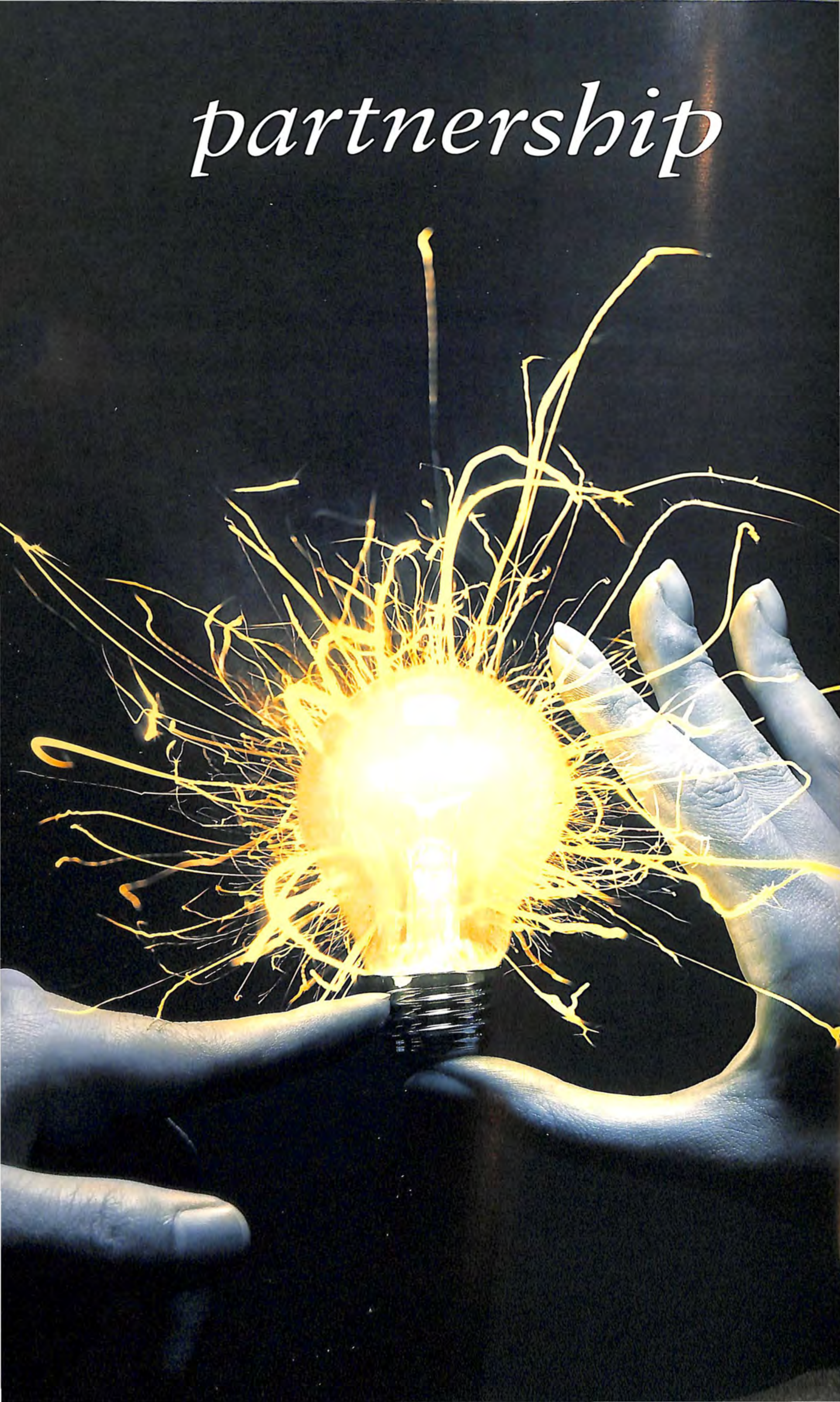
Public relations

Clients look to the Group's public relations companies for advice on a wide range of important issues: corporate and financial communications; public affairs; health and medical communications; consumer affairs; environmental communications; management counselling; crisis management and media relations. The Group's public relations companies frequently work with WPP companies in other marketing disciplines to ensure an integrated communications approach.

Specialist communications

With 23% of the Group's activities involved in specialist communications, WPP is able to provide clients with the broadest offering of specialist marketing skills. Specialist companies often work in partnership with other WPP companies.

These specialist communications include strategic marketing services; corporate identity and design; audio visual and multimedia communications; business-to-business, financial and corporate advertising; pharmaceutical and healthcare; travel, recruitment, retail advertising; sales promotion; direct marketing and direct mail programmes; investor communications; exhibitions and conferences; incentive and motivation; real estate and Hispanic marketing.


partnership

One of the great and growing advantages enjoyed by WPP companies, each trading individually but all belonging to the same Group, is the opportunity for the formation of client-directed partnerships.

These partnerships may involve multi-disciplinary specialisation in a sector such as The CommonHealth; geographical extension of our services demonstrated by Enterprise Communications Group; or ad hoc teams brought together for the benefit of a particular client: the First Choice story. Such partnerships exist to offer clients a matchless level of expertise and reach. There is virtually no combination of skill or resource that cannot be swiftly assembled to meet a client's specific requirements.

To promote these partnerships, we are accelerating our efforts to share best practice and knowledge and to improve relationships between individuals across Group companies. Besides the training programmes outlined elsewhere, initiatives include:

Co-ordinating research

■ In some areas, co-ordinated research is a better and more cost-effective way of gaining knowledge. WPP has set up a multimedia, multinational task force to bring together the expertise of relevant Group companies and to extend our capabilities. As part of this, WPP is the only marketing services group to join the multi-million dollar Electronic Access Study in the US, along with major companies such as US West, Bell South and American Express, to explore consumer demand.

■ A number of WPP companies have joined as partners in a worldwide research study into attitudes among consumers towards buying shares and the implications for marketing services suppliers. The results of the Privatisation Study are already proving useful to each of the companies in their new business programmes.

Interactive marketing

■ Details of the Group's services and capabilities are now available on CD-ROM. The disc is fully and quickly searchable. Each WPP company presents its credentials and services with sound and full-screen video, together with case histories and marketing materials on display. The disc was produced for the Group by MetroVideo Multimedia.

■ A number of our companies are already involved in creating interactive advertising for their clients. A WPP Internet site is being set up this year and will include links to operating company and client Internet sites. Access can be made through the following address – http://www.wpp.com

WPP partnership in action

Last year, one of the UK's largest tour operators called on four WPP companies to bring their different skills together to rename and relaunch the company. Working parties involving **Ogilvy & Mather Worldwide**, **Hill and Knowlton**, **Promotional Campaigns** and **SampsonTyrrell** brought together corporate identity, PR, advertising, direct marketing, brochure design, launch events, signage and clothing specialists to create a coherent, unified approach. The new company, known as **First Choice**, reports that, just three months after the launch, sales were up by 42% over the same period in the previous year.

The Henley Centre and **Research International** have been partners in developing an original research programme called **'Frontiers'** combining consumer research and analysis. Now in its fifth year, it predicts consumer attitudes and behaviour and is used by clients developing their marketing strategy. Clients include companies such as AT&T, Ford, Heineken, Unilever and United Distillers. It is planned to extend 'Frontiers' to offer the same kind of analytical and predictive service to other parts of the world.

WPP partnership in action

The **Enterprise Communications Group** was launched in 1994 to offer clients worldwide corporate and/or brand identity expertise. Enterprise brings together the skills and experience of New York-based **Anspach Grossman Portugal** and London-based **SampsonTyrrell** to provide clients with the benefits and economies of multinational brand identity programmes.

J. Walter Thompson Company and **Mendoza Dillon & Asociados** have formed a joint venture to provide Hispanic advertising services to clients.

WPP networking

All Group company chief executives – and the holding company – are linked through **Lotus Notes** to exchange non-confidential information and news electronically.

WPP runs a database of Group activity, an **information resource**, that is exclusive to Group members. It can often answer the most unlikely questions from our clients and prospects – and identify an expert within the Group who will come up with a solution quickly and professionally. The database draws on the talents and experience of all 19,000 members of WPP.

To help WPP company employees keep in touch with events, developments and resources within the Group, we publish a quarterly newsletter, **Network**, which is distributed worldwide.

In-depth **cross-company training courses** help to build relationships between our people and to facilitate better working partnerships.

Strategic alliances

■ Since 1992, several WPP companies have linked up in a strategic alliance, **The CommonHealth**, to offer one of the largest and most comprehensive specialist healthcare communications network in the world. CommonHealth clients can call on any or all of the co-ordinated services of Ferguson Communications Group, J. Walter Thompson Company, Ogilvy & Mather Worldwide, Hill and Knowlton, Ogilvy Adams & Rinehart, Research International, The Henley Centre and HLS CORP.

The US-based Upjohn Company used The CommonHealth to develop a worldwide integrated launch plan for Freedox®, the first of a new class of drugs to treat stroke and head injury. Based on a unified communications launch plan across the relevant marketing disciplines, and put together by 13 WPP companies in 12 countries, the product has now been filed for approval in over 50 countries in Asia, Europe, North and Latin America. In Europe, The CommonHealth group of companies provides clients with collective experience and knowledge across borders and marketing skills.

■ **The Media Partnership** is the largest media buying company in Europe under advertising agency ownership and services clients in most EU countries. TMP enables the Group's agencies (J. Walter Thompson Company, Ogilvy & Mather Worldwide and Conquest) to offer clients effective and co-ordinated multinational media buying and planning. TMP offers clients the benefits of volume negotiations, strategic media planning and research through the agencies themselves and through TMP's Research Unit.

■ In the UK, WPP maintains three strong, independently-managed research companies, BMRB, Millward Brown Market Research and Research International UK. To help optimise its worldwide research offering to clients, WPP has established a new holding company, **Kantar**, with responsibility for the Group's three separate global research businesses – Research International, MRB Group and Millward Brown International.

The strength of WPP

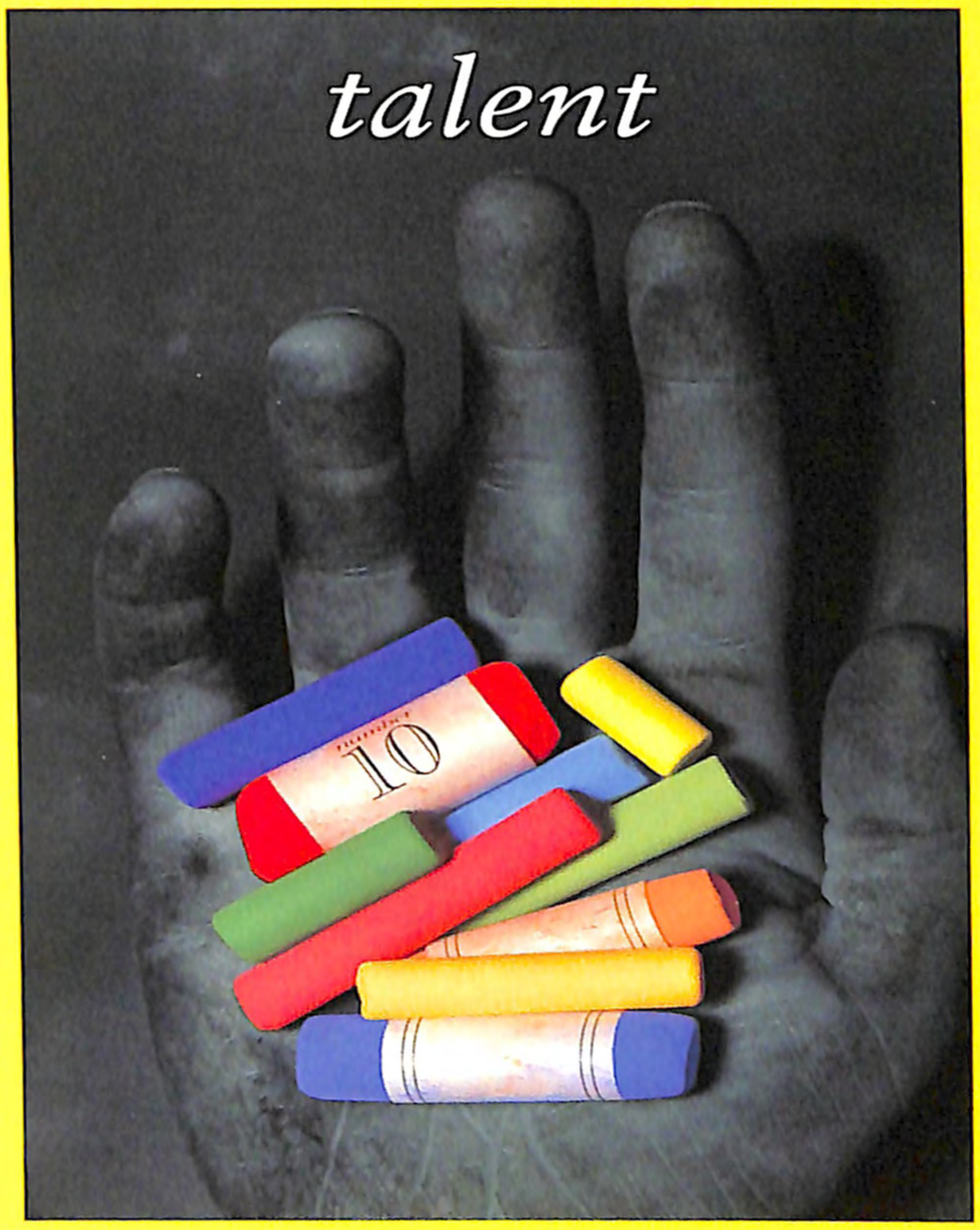
■ WPP's greatest strength is our client base: a remarkable list of blue-chip businesses, ranging from packaged goods to financial services and hi-tech companies. Many client relationships span many generations.

■ In its range of skills and geographical coverage, the Group is unrivalled and has achieved balance in both. It is strongly represented outside the US and derives no more than 55% of its revenues from conventional advertising.

■ As ever, the key to servicing that client base lies with the talents of our 19,000 people and the skill with which they are developed and managed.

■ Through increasing investment in information technology, training and incentive programmes, the Group facilitates, encourages and rewards exceptional client service – both within individual companies and in partnership with others.

Our brands



Media advertising

J. Walter Thompson

■ J. Walter Thompson is a global full-service media advertising agency with over 6,600 employees in 206 offices in 70 countries. The original force in US and worldwide advertising, we have sold more goods to more people in more countries than any other agency in our 130 years of operations.

■ J. Walter Thompson is the world's fourth largest advertising agency. Its leadership strength is not in one region, however, but in every region of the world, and with full ownership in all major markets. Our extensive professional resources and unique global business organisation allows us to control and implement worldwide campaigns effectively and efficiently, while offering strong local service to our clients.

■ The special quality of our JWT staff around the world is unique in the industry and gives us a competitive edge. Our worldwide standards of recruiting, training and performance are focused toward a commitment to our clients' success. The JWT communication planning process begins by defining the desired consumer response, and only then goes on to develop the stimuli that will create that response. The task of every communication is to create an *abruption* – a relevant surprise in the mind of the consumer, which ensures memorability and effectiveness. The task of every communication program is to upset the status quo in the marketplace, in favour of the client. We are dedicated to accomplishing this and building successful brands for our clients.

Major clients

Allied Lyons plc
Australia Tourist Commission
Beiersdorf AG
Bell Atlantic
Boston Market
Bristol-Myers Squibb Co
Campari
Ciba-Geigy Limited
Citicorp
De Beers Consolidated Mines Limited
Eastman Kodak Company
Ford Motor Company
Ford Dealer Advertising Associations
The Goodyear Tire and Rubber Company
Grand Metropolitan plc
Heineken NV
Hiram Walker, Inc
ICEP Investments, Commerce and Tourism of Portugal
S C Johnson & Son, Inc
Kellogg Co
Kraft Foods
Mateus Wine
McDonnell Douglas Corporation
Montres Rolex SA
Motorola, Inc
Nabisco, Inc
Nestle SA
Northern Telecom, Inc
Oscar Mayer Food Corporation
PepsiCo, Inc
Philips NV
RJ Reynolds Tobacco Co
Roche Holding Ltd
Scott Paper
Southland Corporation
Sprint Corporation
Sunbeam Corp Ltd
Sun Microsystems Computer Company
TNT Express Worldwide
Tenneco Automotive
Unilever plc
United States Marine Corps
Warner-Lambert Company

consumer & BRAND

Ogilvy & Mather
Worldwide

Major clients

Alitalia
American Express
BAT
Boeing
Bristol-Myers Squibb Co
BT
British Tourist Authority
Campbell Soup Company
Ciba-Geigy
DHL Worldwide Express
Disneyland Paris
Duracell
Eastman Kodak Company
Ford Motor Company
Guinness
Hershey
IBM
Kimberly-Clark
Korean Air
Kraft Foods
Mattel
Nestle SA
The NutraSweet Company
NYNEX
PepsiCo
Philips NV
Ryder Truck
Seagram
Sears Roebuck & Co
Shell Oil Company
SmithKline Beecham
Unilever plc
Wilson Sporting Goods

■ Ogilvy & Mather Worldwide offers services in advertising, direct marketing and related marketing communications disciplines as well as international media planning and buying services in four regions. Ogilvy also has access to public relations and sales promotion networks, design and production services.

■ Ogilvy & Mather Worldwide is the world's sixth largest advertising agency with 272 worldwide offices in 64 countries.

■ Ogilvy & Mather's corporate mission is: "To be the most valued by those who most value brands". This mission is fulfilled through Brand Stewardship – a carefully crafted set of tools used to understand, develop and enhance the relationship between a consumer and a brand. This discipline is applied to both local and global brands which make up a 50-50 balance in the roster. Local Brand Stewardship keeps the agency fully rooted in the marketplace – understanding the consumer on an intimate level. Global Brand Stewardship is a marriage of local know-how and a worldwide network capable of understanding and articulating brands as they cross borders. In each office we post these words as our ultimate purpose: "Only if we have built, nourished and developed prosperous brands, only if we have made them more valuable both to their users and to their owners, may we judge ourselves to be successful".

CONQUEST

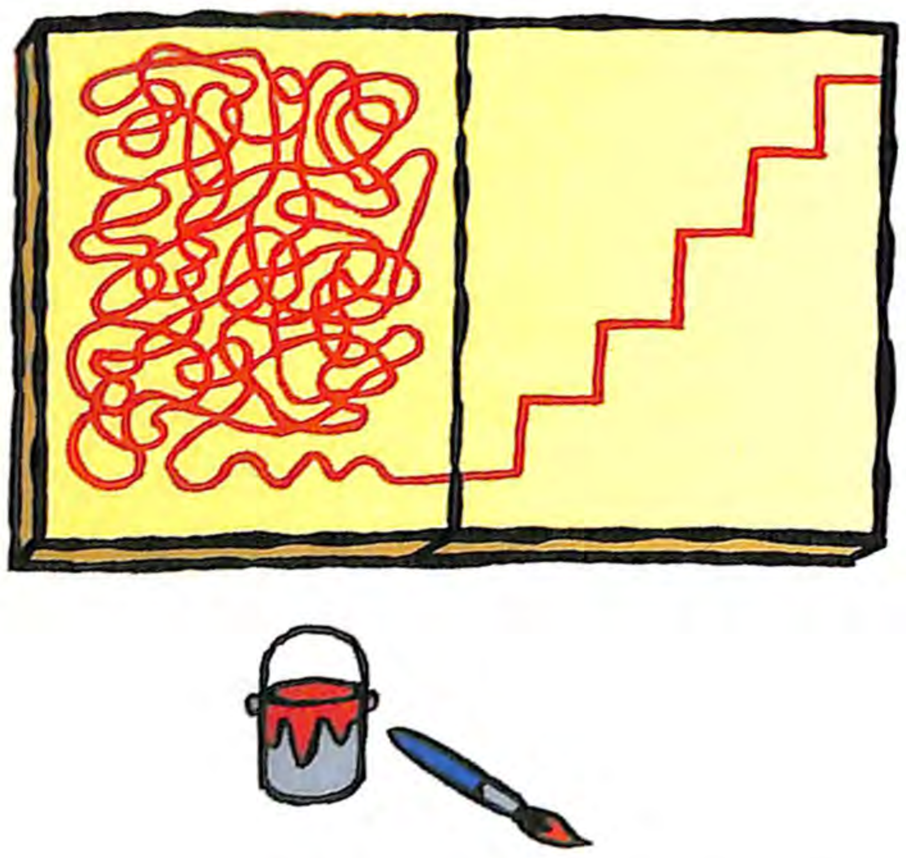
■ Conquest is a European-based advertising agency providing fully integrated and co-ordinated communication services through 21 offices in 17 countries to national and multinational marketers.

■ Conquest is the 19th largest European advertising network.

■ Conquest is about power and seduction. Its efficient balance leads to a winning strategy.

Major clients
Alfa Romeo
Bordeaux Wines
Candy
Grohe
Hoechst
Kodak
Nestlé
Nikon
Osram
WWF

Cole & Weber



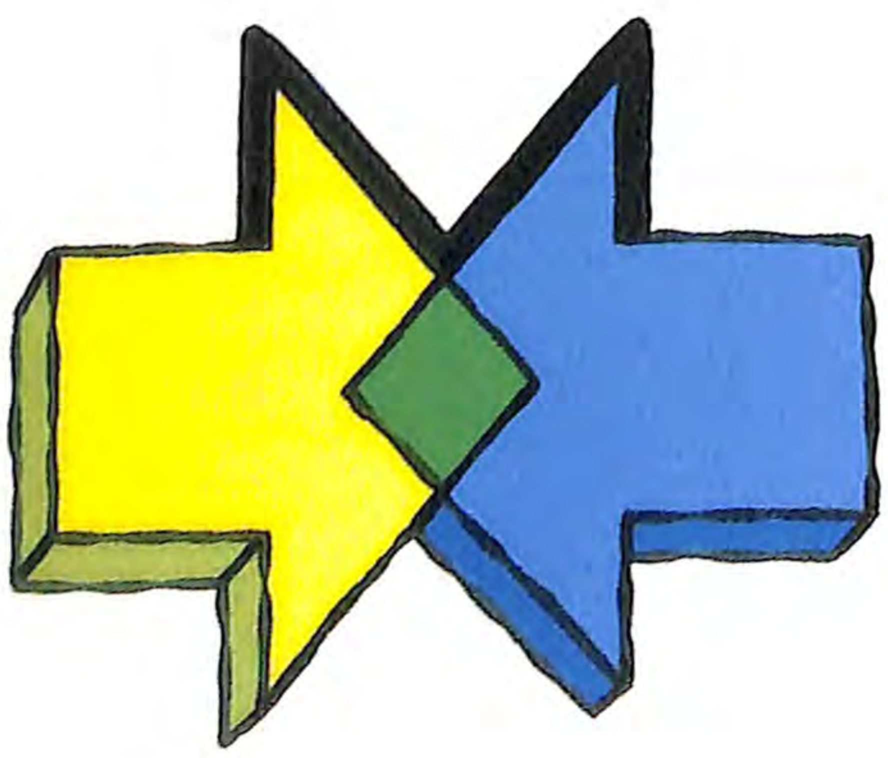
■ Full-service advertising agency providing strategic planning, creative development, print/broadcast production, direct marketing, media planning/placement, multi-media and interactive development/production – appearing in 133 countries worldwide.

■ Creatively conceived ideas, brilliantly executed.

■ Ideas matter more than process, results more than theory.

Major clients
Airwair USA (Dr Martens)
Boeing
Group Health Cooperative
Hollywood Video
SAFECO Insurance Companies
Shapeware
Silicon Graphics
Stimson Lane Wine & Spirits
Westin Hotels & Resorts
Weyerhaeuser

THE MEDIA PARTNERSHIP



■ A flexible partnership between WPP and Omnicom advertising agencies; providing clients with superior media buying and research skills/services; giving clients access to the best media trading conditions in Europe.

■ The second largest media buying network in Europe, exceeding $4 billion in 12 countries.

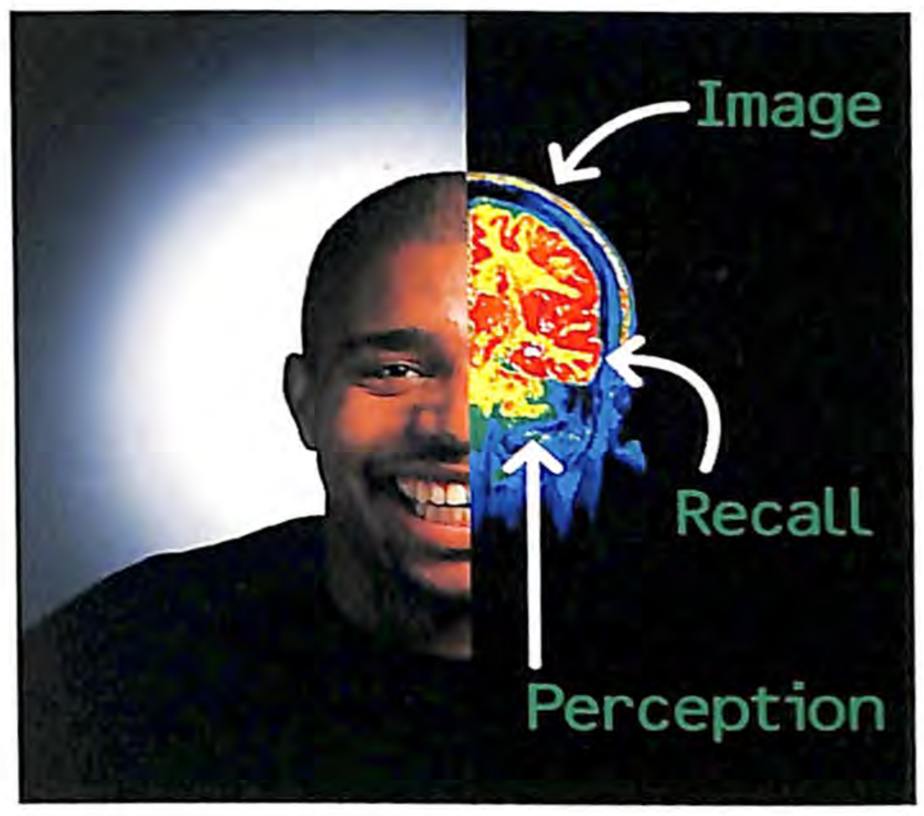
■ The world's first full service agency media group.

European offices
Austria
Belgium
Czech Republic
Denmark
France
Germany
Greece
Hungary
Italy
Netherlands
Portugal
Spain

Millward Brown International

Major clients
American Express
Guinness
IBM
Kraft Jacobs Suchard
Levi Strauss
PepsiCo
S C Johnson
Unilever plc
United Distillers

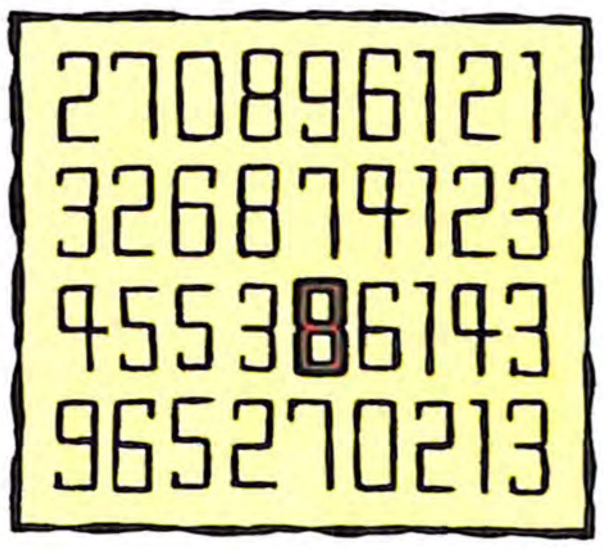
- Brand health tracking and advertising pre-testing, plus sophisticated sales and media modelling. Services available globally, in 50 countries, via wholly-owned offices and long-standing affiliates.
- World leader in brand health and marketing communication evaluation. Ranked in top 20 research companies worldwide.
- Top quality innovative thinkers with unique experience.



MRB GROUP

Major clients
Abbey National
American Express
British Airways
BT
De Beers
Ford
Philip Morris
S C Johnson
Time Inc
Unilever plc
United Distillers

- MRB Group is an international market research agency. It provides reliable, research-based advice on business and policy issues faced by its clients, in any part of the world.
- MRB Group specialises in media planning databases, public policy research and customer satisfaction research.
- MRB's researchers combine craftsmanship in research with real understanding of business and policy issues.



RESEARCH INTERNATIONAL

Major clients
American Express
Argos
AT&T
Beiersdorf
British Government
Danone/BSN
Kraft Jacobs Suchard
PepsiCo
Royal Mail
Shell
Tenneco
Unilever plc

- High quality, action-orientated custom marketing research and tracking of all kinds for major corporations, utilities, government agencies worldwide.
- Offices in 47 countries. World's leading custom research group, with specialisation in key business sectors and research areas.
- Worldwide coverage with international co-ordination of projects and key clients, supported by consistent global techniques.

HILL & KNOWLTON

■ Hill and Knowlton provides intelligent and creative communications solutions to support our clients' business objectives. We offer a worldwide capability in corporate services, consumer and business-to-business marketing, public affairs, financial and media relations, healthcare, environmental affairs, food and nutrition, and advanced technology.

■ The firm's single-mindedness in defining business success as the degree to which our clients succeed gives our counsel competitive distinction.

■ Hill and Knowlton is distinguished by its sophisticated use of research and attention to clients' needs, ensuring informed, strategic counsel.

Major clients
3Com
adidas
American Red Cross
Ameritech
Anheuser-Busch
Boeing
Boston Market
British Gas
California Avocado Commission
Daewoo Group
Eastman Kodak
Florida Dept of Citrus
Frito Lay
Gallaher
Hitachi Ltd
Hughes Aircraft
Johnson & Johnson
Kraft Foods
Mazda
Morrison-Knudsen
Motorola
Nuclear Electric
Oscar Mayer
Pfizer
Puerto Rico Tourism Company
Schering-Plough
Sony
Spiegel
Starkist
US Ecology

Ogilvy Adams & Rinehart

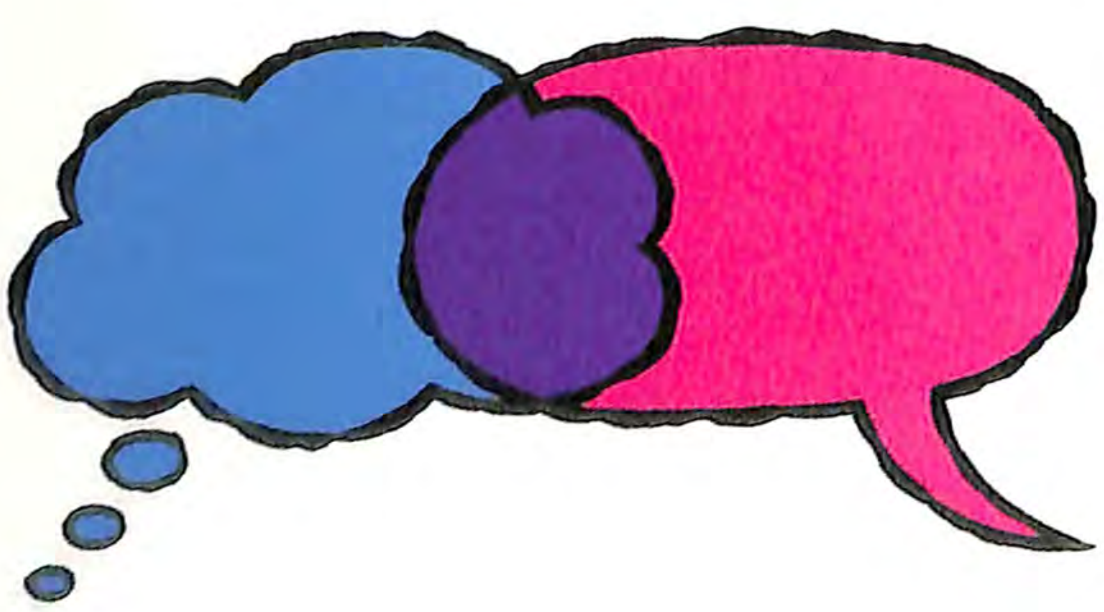
■ Corporate and financial communications; strategic marketing; health and medical communications; public affairs. Managing programs globally with OA&R's Best Practice[SM] co-ordination and selection process.

■ Ranked in world top 10 – among top five in each practice area.

■ Best Practice[SM] concept assigns best agency with OA&R control.

Major clients
American Hospital Association
Burroughs Wellcome Co
Chubb Corporation
Duracell
IBM EMEA
Kimberly-Clark
National Semiconductor
NatWest USA
New York Life

Carl Byoir & Associates, Inc.



■ Carl Byoir & Associates is an international public relations firm built on the tradition of quality client counselling and service.

■ Specialising in marketing communications, problem solving, campaign development and implementation.

■ The composition of our staff and structure allows us to provide successful and cost effective campaigns.

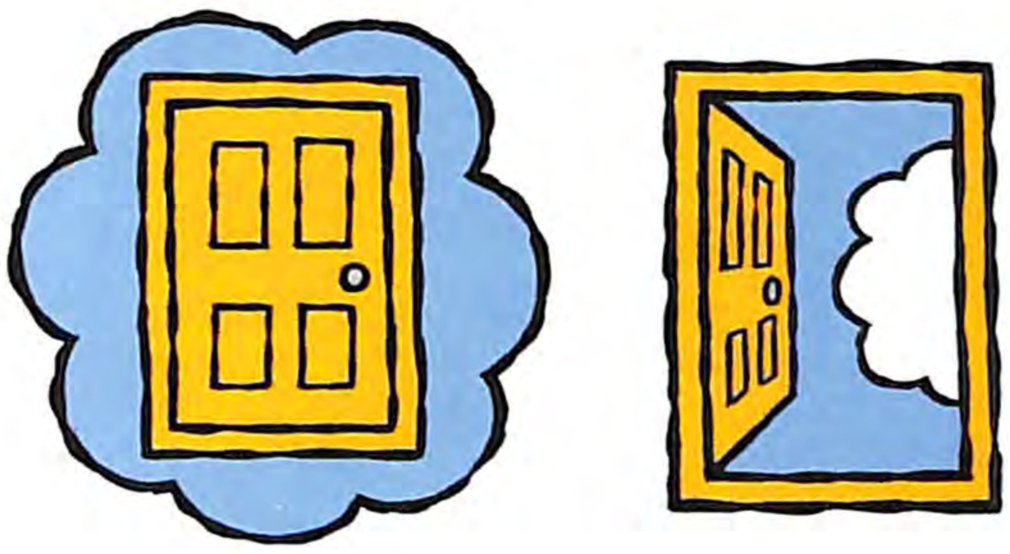
Major clients
1 800 I LOVE PIZZA
AT&T United States Virgin Islands
Ciba Agriculture
Citibank Private Bank
Global Action Plan
Jewish Care
Princess Cruises
Shutters on the Beach Hotel
Van den Bergh

Specialist communications: Strategic marketing services

The Futures Group

Major clients
Cigna Re
Commerce Clearing House
Duracell
Fleet Financial Group
Ford Motor Company
IBM
Kraft Foods
Levi Strauss
Pfizer, Inc
Prudential Co
Southern California Edison
Texas Instruments

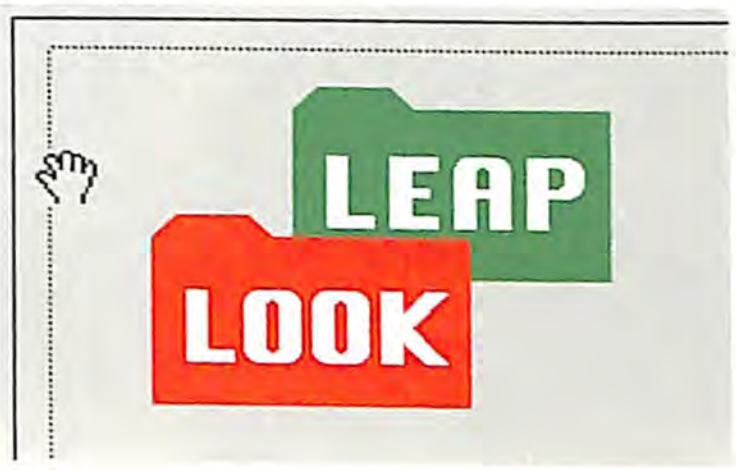
■ We help clients develop the power to succeed in a volatile business environment by devising strategies that combine market information, business intelligence, and scenario-based planning techniques.
■ Our ability to manage uncertainty continues to set The Futures Group apart.



The Henley Centre

Major clients
Allied Domecq
AT&T
Bass
BT
The Independent
Next
Nike
Prudential
Rover
United Distillers

■ Consultancy and syndicated programmes help our clients anticipate and exploit change in their operating environments.
■ The leading strategic consultancy focusing on our clients' future environments.
■ Combining economic and lifestyle factors gives new, actionable market insights.



Specialist communications: Audio visual

Metro Video

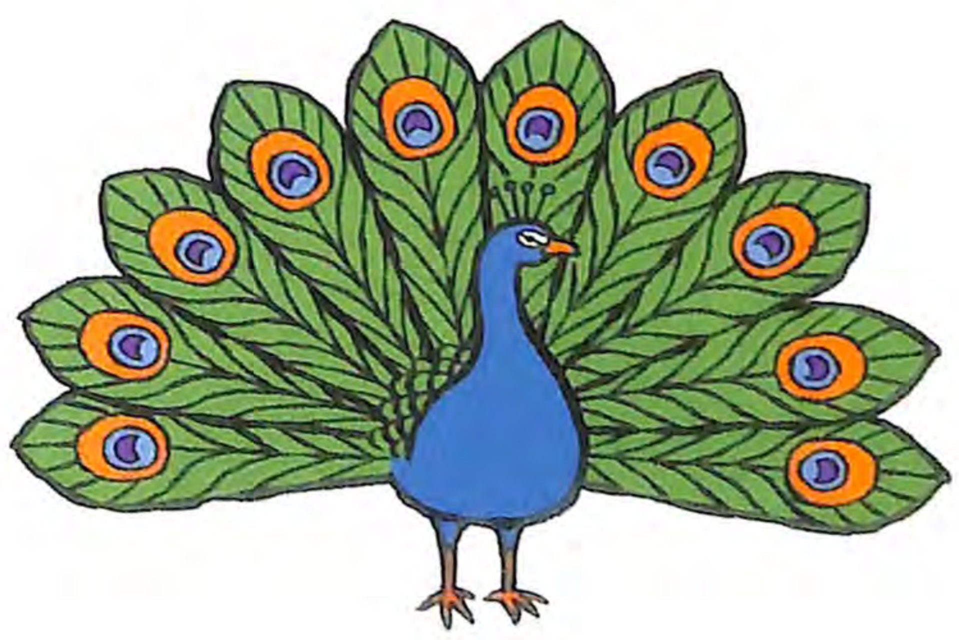
Major clients
Arthur Andersen
BBC
BP
BT
Cadbury Schweppes
Ford
Metropolitan Police
PolyGram
Shell International
Texaco

■ Specialising in technical and creative visual solutions throughout the UK and Europe.
■ 230 people offer the widest range of services in the industry.
■ We are unique because we offer integrated visual communications solutions.

G-Force Communications

Major clients
3M
British Gas
BT
Coopers & Lybrand
Daewoo Group
Grand Metropolitan
HM Government
MGM Cinemas
Nortel
The Post Office

■ International specialists in the design and delivery of multimedia, conferences, film and video, roadshows, exhibitions and internal communications.
■ Voted No 3 in UK Top 50 survey.
■ Creating the future for multimedia and internal communications.



A. Eicoff & Company

- A. Eicoff & Company is a Chicago-based agency that specialises in broadcast advertising for immediate, measurable results.
- We are the leaders in television direct response and trade support advertising.
- We are the only US agency that specialises in both television direct response and trade support.

Major clients
American Express
Amre
Campbell Soup
Lens Express
Reed-Union
Rodale Press
Sears
Time-Life

EWA

- Suppliers of a range of direct marketing services, to both retail and agency clients.
- EWA, rated 17th largest UK direct marketing agency, is the largest supplier of customer care and communication centres to the automotive industry in Continental Europe and the UK.
- Currently in five countries.

Other major clients
Age Concern
Gwilo
Marks & Spencer
Radio Times
Turner International
United Parcel Services
Winterthur

JWT Direct

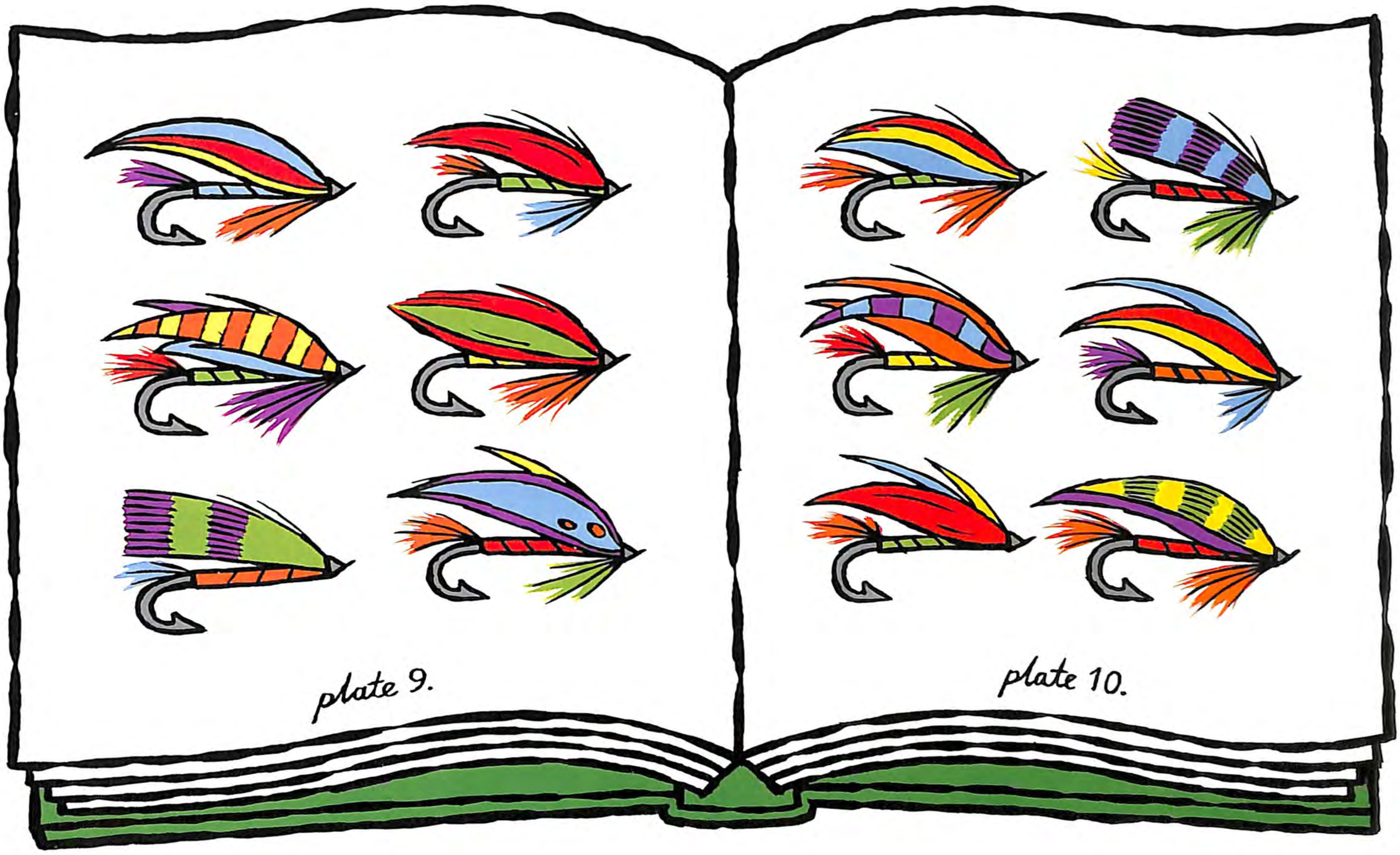
- JWT Direct provides strategic and executional direct marketing agency services including creative, database services and communications program integration.
- We focus on accountable, business-building results.
- We are committed to over-servicing clients, and delivering on results.

Major clients
Bell Atlantic
Eastman Kodak Company
Fidelity Investments
Ford Motor Company
NordicTrack
Sprint
Sunsoft
TNT Express Worldwide
United States Marine Corps
The Wall Street Journal

RTC direct

- RTC Direct partners companies that are dedicated to maximising the profitability and brand equity of their products.
- As the 37th largest direct agency in the US, we provide a full array of database driven solutions by utilising the advantages of the virtual office.
- A reliance on front-end financial analysis achieves optimal customer objectives.

Major clients
ACLI
DHL
IBM
Mead Johnson Nutritionals
NASDAQ
Philip Morris Companies
US Air
US Mint
Warner Lambert



Ogilvy & Mather Direct

Major clients
American Express
Bristol-Myers
BT
DHL
Ford
IBM
IKEA
Jaguar
Kraft Foods
Lever/Unilever
Lufthansa
Mattel
Nestle
Philips
Red Cross
Seagram
Shell
Singapore Airlines
SmithKline Beecham

- Full service global direct marketing agency. Our direct marketing services include delivering award-winning creative, account management, strategic planning, media planning and buying, database marketing consulting.
- Recognised as the leading direct marketing agency in the world. Creators of the most innovative ideas, the most award-winning campaigns, and the best training, for the best clients in the most challenging arena of communication.
- We strive to be the most challenging and valuable strategic marketing communications partner – vibrant, fun, full of energy, colourful. Always adding, always in control, always fresh.

Specialist communications: Healthcare marketing

FERGUSON COMMUNICATIONS GROUP

- Addresses the total needs of healthcare product marketers – communicating any message to any audience through any medium.
- Largest US healthcare communications resource. Industry's 'Most Admired' for three consecutive years.
- Depth of resources in marketing prescription and consumer brands.

Major clients
Abbott Laboratories
Alza Corporation
Boots Pharmaceuticals, Inc
Johnson & Johnson
Mead Johnson Nutritionals
Organon Inc
Sandoz Pharmaceuticals
Schering Corporation
The Upjohn Company
Warner-Lambert

HLSCORP.™

- Providing strategic planning, clinical evaluation, tactical design, and program implementation for companies in the healthcare marketplace.
- Influencing opinion leaders in the managed care and fee-for-service environments.
- Bonding healthcare providers to their products and services.

Major clients
Abbott Laboratories
Eli Lilly and Company
Janssen Pharmaceutica
Marion Merrell Dow, Inc
Mead Johnson Nutritionals
Organon Inc
Ortho-McNeil
Schering-Plough
SmithKline Beecham

Semper Vitae Summa

S·U·N·HEALTH·CORE

- S.U.N. Health-Core goes beyond traditional health communication and generates insights into the innate consumer drive for total well-being.
- Serves as an alternative or as a high return enhancement to mainstream marketing.
- Accesses and mobilises resources from a number of WPP companies.

Major clients
Parke-Davis
Warner-Lambert Company American Chicle Group
Warner-Wellcome Consumer Healthcare

The CommonHealth

Global Healthcare Marketing and Communications

- Providing global reach and expertise in pharmaceutical marketing and promotion, market research, advertising, education, scientific support and public relations.
- Largest multi-disciplinary worldwide network of communications specialists.
- A seamless source for global healthcare capabilities.

Major clients
Allergan
Boehringer Ingelheim
Boehringer Mannheim
Johnson & Johnson
Nycomed
The Upjohn Company
Warner-Lambert

Promotional Campaigns
Worldwide

Major clients
UK
B&Q
Barclays
Carlsberg-Tetley
Ford
IBM
Sainsbury
Warner-Wellcome

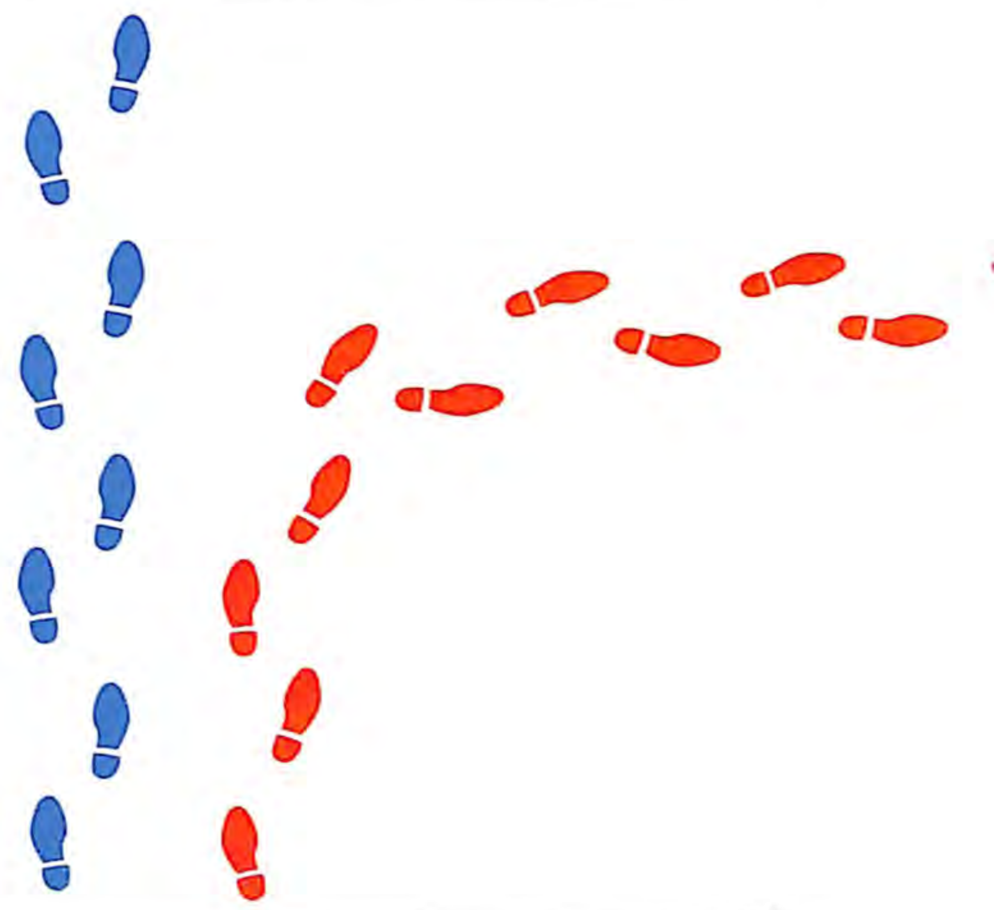
European
France Telecom
Leica
Ster

- Full service promotional marketing consultancy group including sales promotion, direct marketing, design, promotional advertising, events, business-to-business and trade marketing.
- Leading, award-winning promotional marketing network with 15 associated offices.
- Ideas that sell, add value and build brand values.

einson FREEMAN

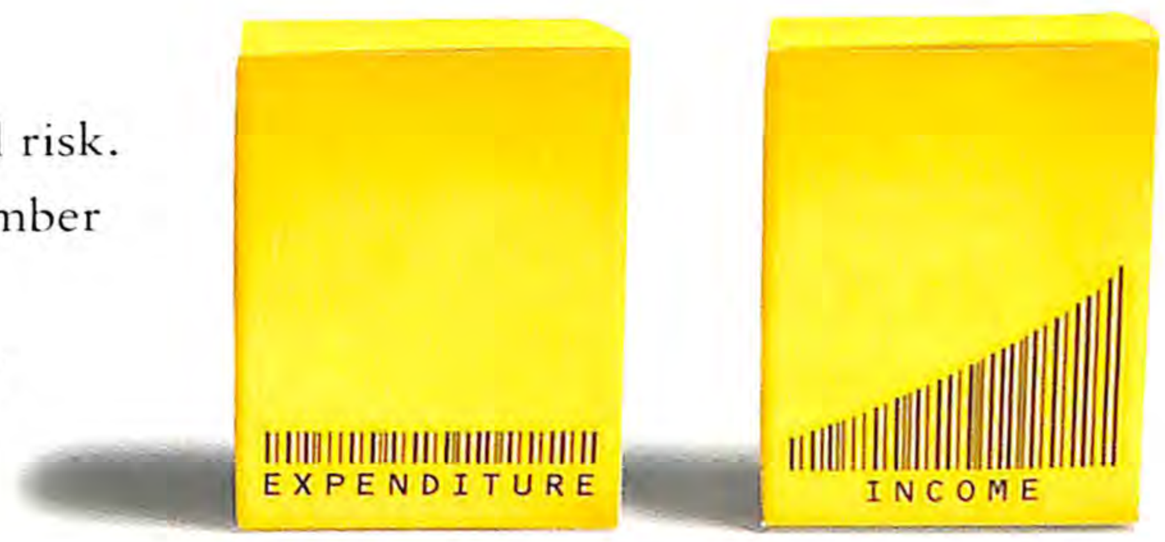
Major clients
Amtrak
CBS Television
General Cigar
Kraft/Branded Restaurant Group
Mobil
Reynolds Metals Company
Sears

- Among America's top promotion marketing agencies, providing both consumer and trade promotion within integrated marketing programs.
- Balancing strategic insight and tactical innovation.
- Einson Freeman is driven to change people's behavior in support of our clients' brands.



MANDO MARKETING

- Creating on-pack/off-pack consumer promotions, within the UK and Eire, incorporating the guarantee of no financial risk.
- As innovators, Mando maintains the number one position in its market.
- Operating fixed-fee promotions for over 18 years gives Mando a unique insight to the potential risks of over-redemption.

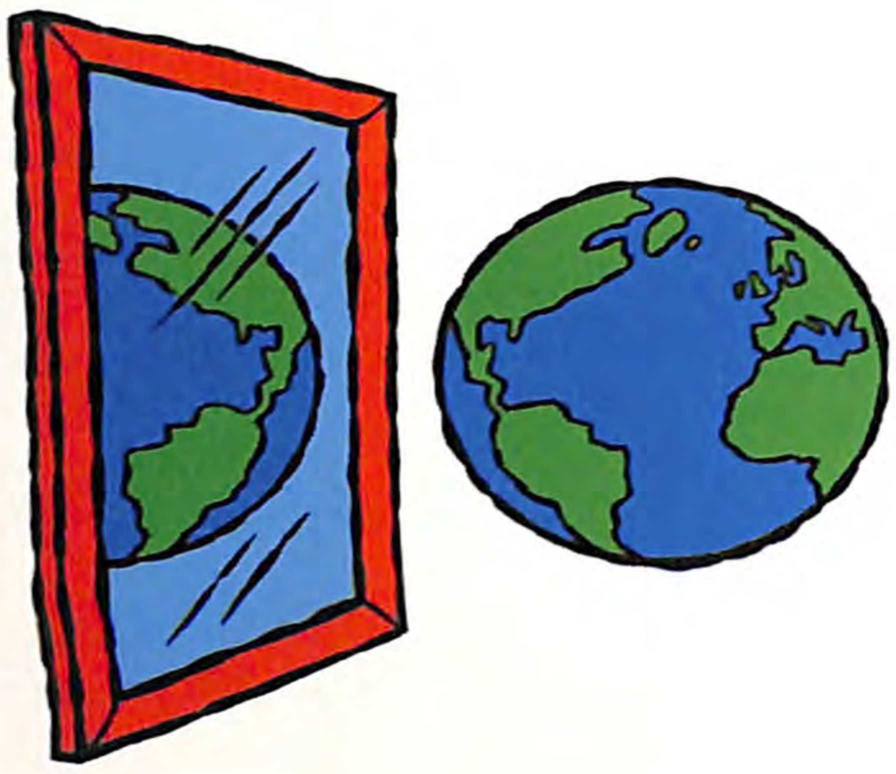


tmc
THE MARKETING CONSULTANCY LIMITED

Major clients
Citroën UK
Compass Services Ltd
Continental Tyres
English Apples & Pears
Powerhouse Retail Ltd
RoadChef Motorway Services Ltd
Tesco Stores Ltd

- Strategically led below-the-line sales promotion and marketing consultancy offering a complete nationwide service from concept through to implementation.
- Experienced team dedicated to giving a professional service.
- Specialist in face-to-face marketing – taking the product to the people.

Specialist communications: Identity and design



Anspach
Grossman
Portugal
Inc

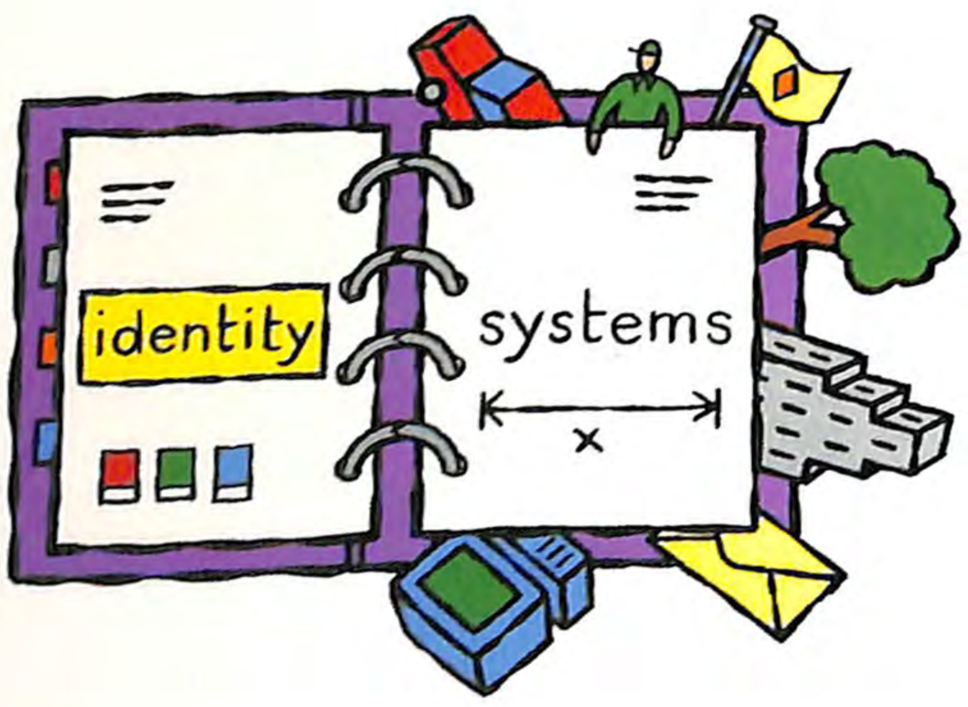
- Identity and strategic communications – worldwide, positioning and strategies, naming and branding, design systems and audience management programs.
- World leader and innovator in global identity consulting.
- A partner in Enterprise Communications Group: a multi-audience, interactive approach.

Major clients
American Express
Ameritech
The BOC Group
Citibank
Gillette
Hewlett-Packard
Lockheed Martin
Maytag
National Australia Bank
Sanyo
Unisys
UPS

BDG | McCOLL

- Space planning, retail, corporate services design, architecture and construction management and property marketing services.
- Market leaders in office and retail interior design. One of the largest specialist design groups in Europe.
- Creative design services supporting clients' business objectives.

Major clients
American Express
BP International
British Gas
BZW
Clydesdale Bank
The Disney Store
Dun & Bradstreet
Motorola
SmithKline Beecham
Thomas Cook



COLEY PORTER BELL

- Through strategic design we create and manage hard-working identities for major brands, companies and retailers worldwide.
- A leader in brand and corporate identity solutions.
- We offer a refreshing and creative approach to solving identity problems.

Major clients
Airtours
BBC
British Gas
BT
Cadbury
Going Places
Golden Wonder
ICI Paints
Lego
Van den Bergh

OAKLEY YOUNG
4TH DIMENSION

- Point-of-purchase solutions from counter top to shop in shop. Design, graphics, materials selection, manufacture, installation and service all geared to increasing sales.
- A leading provider with strengths in design and service.
- Combining creative talent with managerial experience and marketing common sense.

Major clients
adidas
Arthur Sanderson
Boots
Duralay
Homebase
House of Fraser
Playtex
Rimmel
Swatch
Wilson

SampsonTyrell

Major clients
BBC
Castrol
Dun & Bradstreet
EMI
Disneyland Paris
Fiat
Guardian
IBM
Saab
Safeway
Shell
Unilever

- As Europe's leading identity consultancy we advise clients on: values definition, positioning, naming, design and management.
- We are a team of challenging, imaginative professionals from 10 countries, who are passionate about identity.
- We are pioneers. If there isn't a way, we create it. What we do works.

SBG PARTNERS MARKETING AND DESIGN CONSULTANTS

Major clients
3M
AT&T
Brown-Forman
Del Monte
G Heileman Brewing Co
Hewlett-Packard
Kraft Foods
Nestlé USA
Sun Microsystems

- SBG Partners provides its clients with 'shelf evident' package design solutions that sell their products.
- SBG Partners is committed to solving its client's problems by effectively communicating with the target consumer.
- SBG Partners' design solutions always communicate, never just decorate.

SCOTT STERN

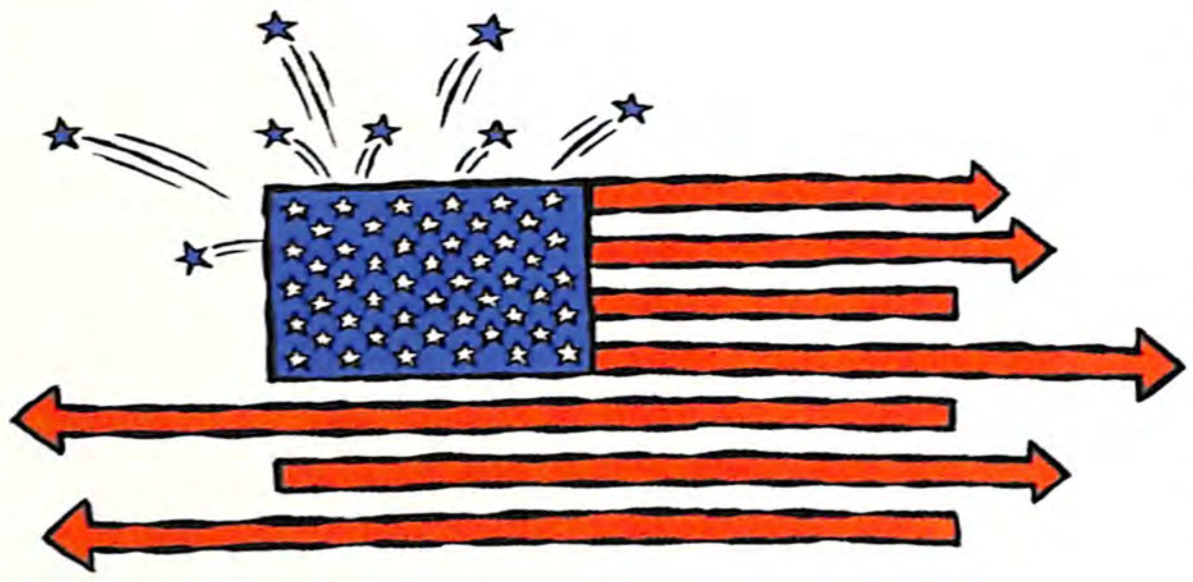
Major clients
BAA
Bass Brewers/
Bass Taverns
Britannia
The Herald/Evening Times
Morrison Bowmore
Scottish Amicable
Scottish Enterprise
Scottish Mutual
ScottishPower
J Trevor & Webster

- Providing complete solutions to our clients' marketing needs – project management, corporate identity, corporate and sales literature, packaging, exhibitions, conferences, multimedia and business graphics.
- Scotland's leading design and marketing consultancy.
- Our common ethic is to be the best.

WalkerGroup/CNI

Major clients
Burdine's
Chase Manhattan Bank
Galeries Lafayette
IKEA
Kuala Lumpur City Centre
Lane Crawford
Luria's
Mashreq Bank
Robinson's Department
Stores
Saks Fifth Avenue

- Providing strategic positioning, identity development, environmental design, architecture, and graphic design services to retail and retail-oriented clients worldwide.
- Commands significant market share in US, Asia and Europe.
- Creation of effective branded environments based on cohesive design strategy.



Brouillard

- An integrated corporate communications and marketing agency.
- Advertising and public relations work to the same plan.
- The choice for corporate and image-intensive products.

Major clients
American Gas Association
Australian Meat & Live-Stock
Eaton
Goodyear
Morgan Stanley
NYNEX
Plus ATM Network
United Technologies

MENDOZA, DILLON & ASOCIADOS, INC.

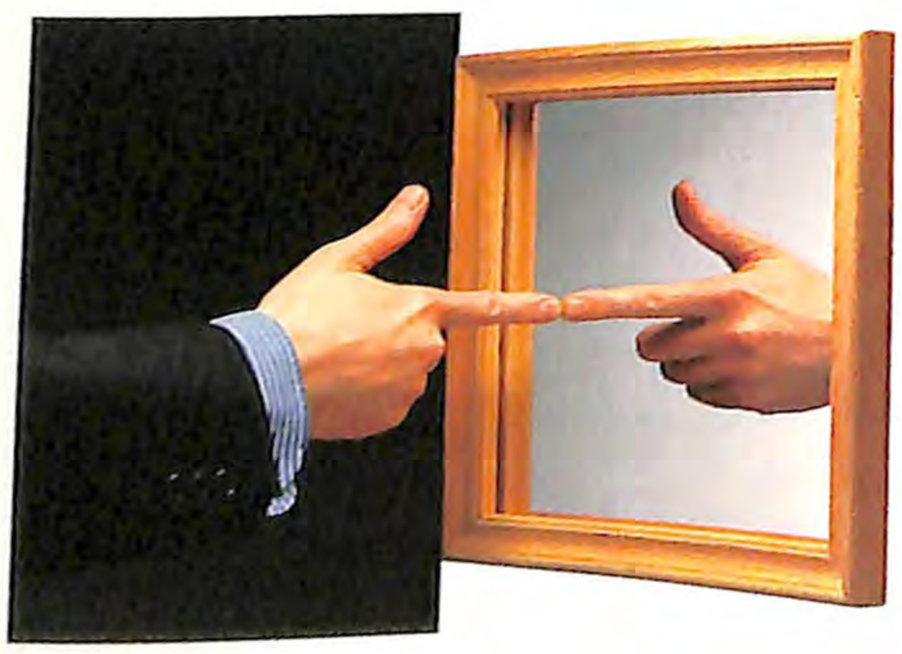
- An advertising and marketing agency, providing communication programs aimed at the Hispanic market in the US.
- The leading Hispanic advertising agency.
- Demonstrates building franchise and sales volume potential of Hispanic marketing.

Major clients
Johnson & Johnson
Kraft Foods
Levis Strauss & Co
McNeil Consumer Products
Nabisco Brands, Inc
Sears, Roebuck & Co

PACE

- Pace is a full-service advertising and public relations agency specialising in real estate.
- Pace is the US East Coast market leader.
- A 46-year track record, unequalled capabilities and resources.

Major clients
American Properties
Calton Homes
Chase Bank (Community Development)
Consolidated Edison
Coscan Development Corporation
K Hovnanian Companies
The Klar Organization
JI Sopher & Co, Inc
The Trump Organization



Primary Contact

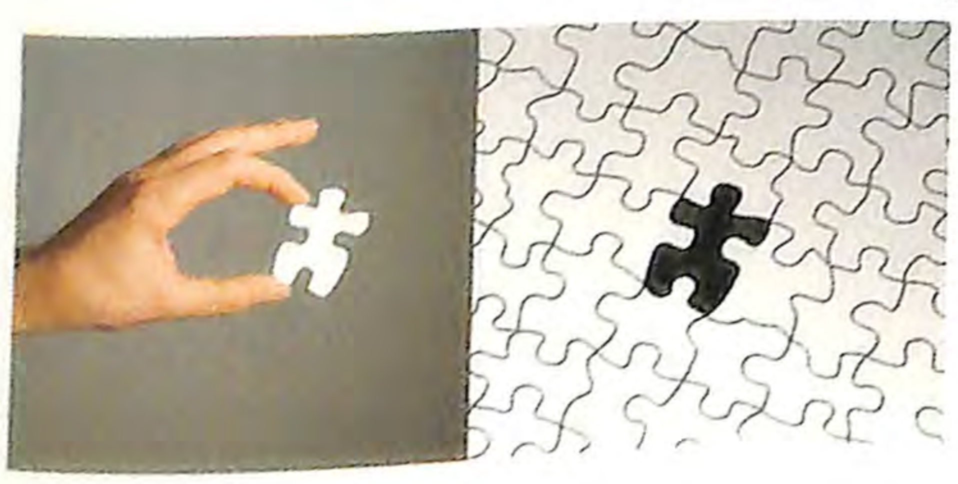
Advertising

- Business-to-business, financial and corporate advertising. Worldwide.
- Market leaders, by size and by standards.
- "Selling the product, while building the brand".

Major clients
Hitachi Europe
Lynx
Old Mutual International
The Open University
Racal Datacom
Redland Roof Tiles
Robeco Bank
Unichema (Unilever)

J Walter Thompson

Thompson Recruitment Advertising



- We create ideas that help our clients hire, retain, motivate and educate their employees.
- Ranked third in US by revenue. National network of 18 offices united by common philosophies, values and operating methods.
- A disciplined approach creates effective, specialised communications.

Major clients
Arthur Andersen
Disneyland
Exxon
Federal Express Corporation
Ford
May Company Department Stores
SmithKline Beecham
Texas Instruments

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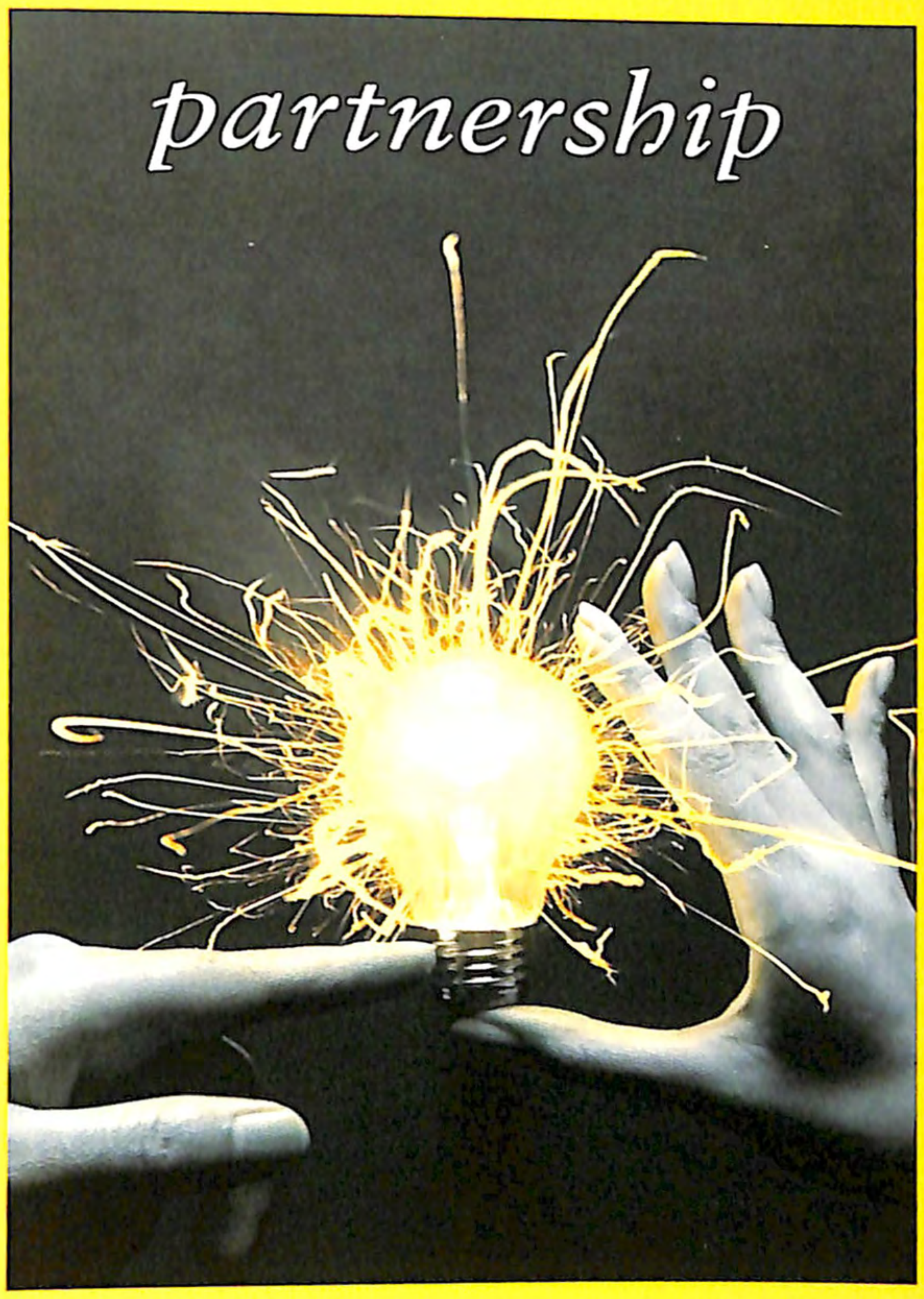

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Industry issues

Competition intensifies

A switch back to advertising?

In 1994 there were some signs of a shift in marketing services expenditure back to media advertising. It is too early to say whether this represents a secular shift in client thinking, or a short-term change reflecting the increased difficulty of reducing costs and a consequent shift in attention to the top line and market share. Undoubtedly though, it reflects fiercer competition and the growing need of marketing companies to differentiate their products and services.

Low population growth

Low rates of population growth, particularly in the mature markets, make it difficult for companies to achieve their stated goals of increases in profitability or earnings per share of 5% to 10% per annum.

Improved communications and free trade

Improved communications, both physical and electronic, have made it easier to compete and to cross borders. However, arguably the single most important contributor to increased inward competitive activity has been the creation of free trade areas throughout the world. For example, economic advances in South America have been fueled by the lowering of trade barriers, with Chile, Mexico and Argentina the major beneficiaries. Given economic fundamentals, the recent events in Venezuela and Mexico represent buying opportunities and not a time for panic selling. Similar free trade zones are being built throughout the world in North America, Europe, and Australasia.

Technology transfer

Easier transfer of technology has not helped clients protect their competitive position. In most industries – detergents, credit cards, computers, automotive – it is increasingly easy to replicate technological developments. Lead times for the introduction of new products have been severely curtailed. In as complex a business as the automobile industry, product introduction periods have been reduced from seven to three years and in some cases to 18 months. Clients no longer have the luxury of experimenting with production techniques or regional test marketing. The speed of competitive response demands instant action.

One of the dangers of this increasingly competitive environment is that mistakes, which will inevitably be made, will make clients more and more risk averse. High flyers who shift positions every three years, are anxious not to disturb their progress and may concentrate on maintaining rather than challenging the status quo.

Fear of failure and punishment of failure may lead to excessive conservatism.

Growing retail power

The growing power of retailers and their increasing control of distribution is a major consideration for many packaged goods manufacturers. Many retailers have established their own label or store brands as quality brands in their own right. As retailers have concentrated on improving quality and establishing different brands at different price points they have become significantly more competitive – a trend helped by the aggressive pricing policies of branded goods manufacturers. These heavy premia prices were sustainable in the higher inflationary times of the 1980s, but have been cruelly exposed in the deflationary conditions of the 1990s. Marlboro Friday and Rupert Murdoch's aggressive price-cutting (perhaps influenced by his directorship at Philip Morris) are examples of pricing differences developed between brands which could not be justified by the value delivered and which have been reversed.

Interestingly, in the context of the growth of the new interactive media, it has been retailers such as Lands End and Eddie Bauer who have reacted most enthusiastically to using TV, telephone and PC-based technology to reach the consumer. Manufacturers will undoubtedly follow them and have already been involved in some of the home shopping experiments launched by ShopperVision and Peabod in the US.

New competitors emerge

It is not only packaged goods companies which are facing increased competition. In many sectors, new and innovative competitors are emerging, using strong brand names and value-based products to penetrate established markets. For example, in financial markets we have seen General Motors, Ford and AT&T emerge as potent forces in the US credit card market, with Virgin and Marks & Spencer establishing themselves as unit trust providers in the UK.

Stable growth and low inflation

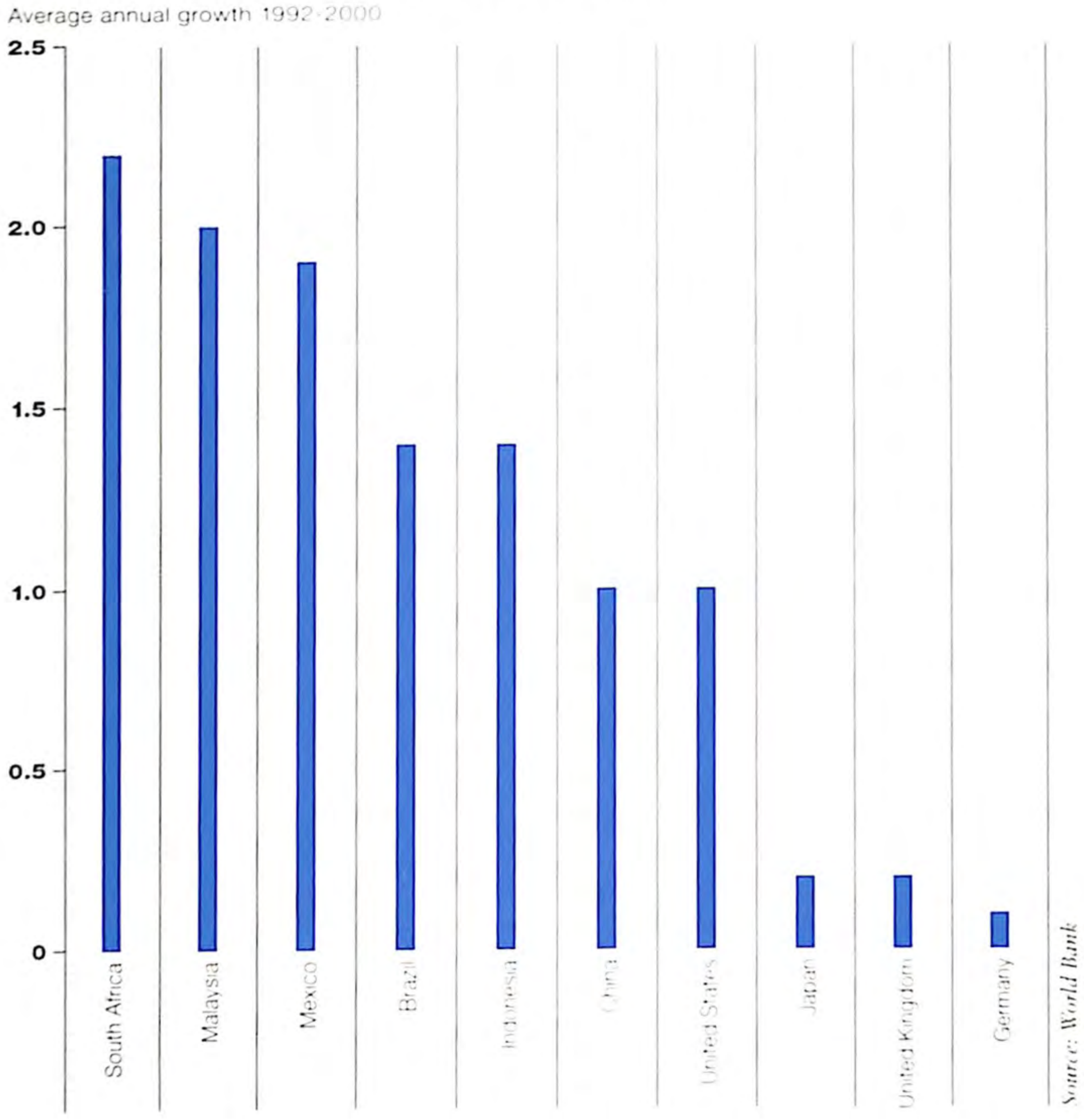
These trends – low population growth, advances in technology and communications, the development of free trade areas, the ease of technology transfer, the growing power of retailers and fiercer competition – have been sharpened by the slower, less inflationary growth of the 1990s.

If, and it is a big if, governments can refrain from priming the economic pump just prior to general elections, it is likely that stable, low inflationary growth might continue. These are conditions which many clients find difficult to operate in and ones in which it is difficult to pass on price increases to the consumer.

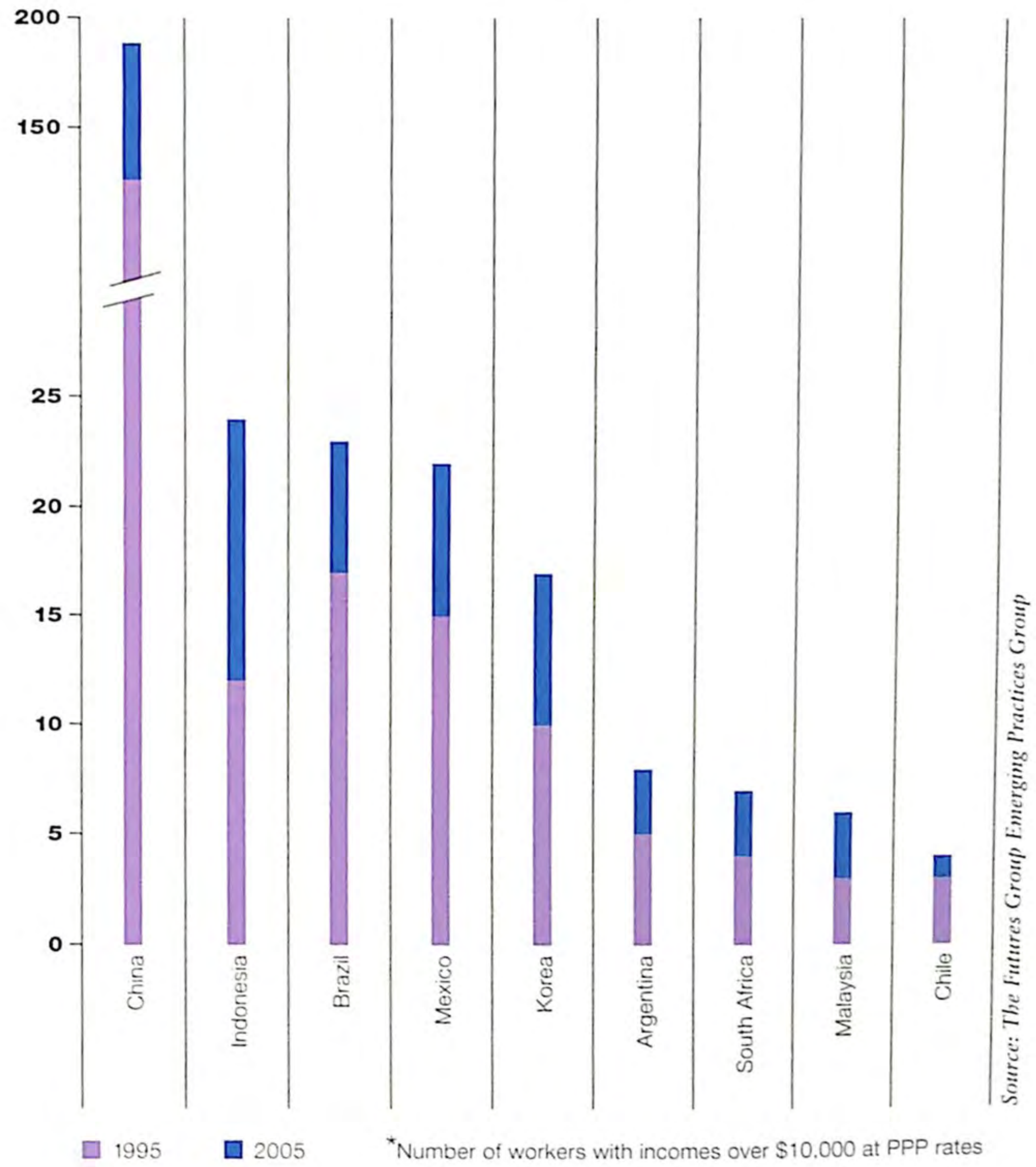
However, even if the incumbent administrations on both sides of the Atlantic cannot resist the urge to stimulate the economy by inflationary tax-cutting in 1996 and 1997, →

Population growth by region (%)

Average annual growth 1992-2000

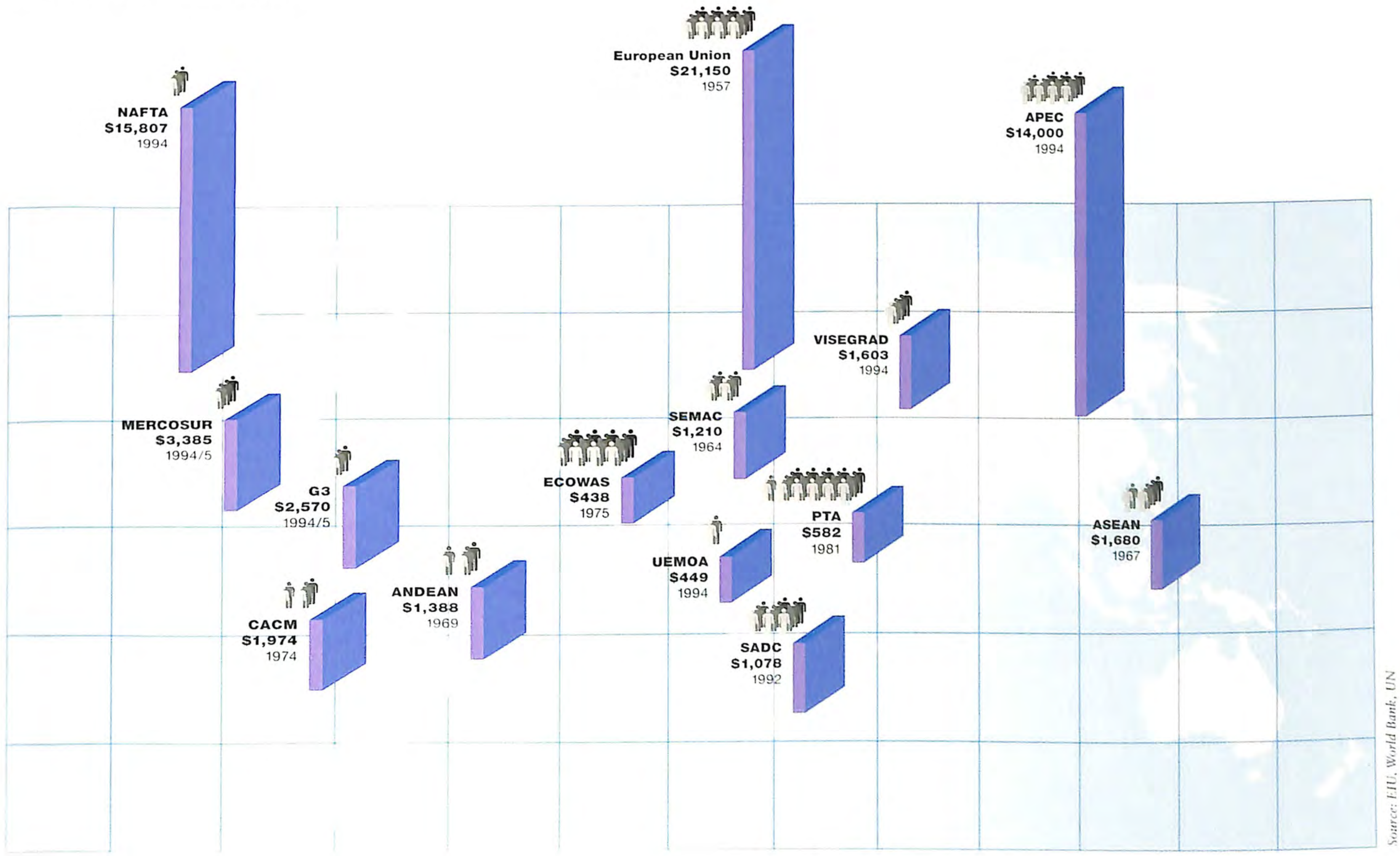


Potential consumers in emerging markets (m)*



*Number of workers with incomes over $10,000 at PPP rates

The world's trade clubs



Name Name of trading ... **S** ... 1900 ... Number of members

Greater inward and domestic competition in mature markets, greater free trade, improved technology and communications, all encourage exploration of new markets.

it is certain that competitive pressures will intensify. If marketing companies have found it increasingly difficult to compete in the last 10 to 15 years, it is likely that they will find it even more difficult in the next 10 to 15 years as the speed of technological change grows exponentially and new and tougher competitors emerge.

Geographical expansion

With the increasingly competitive background, it is easy to see why so many clients are broadening the geographic base of their operations. Although 30 years or so ago many US-based companies believed themselves to be multinational, it is really only in the last few years that they have truly become so. There are some that still have a long way to go. For example, although 80% of Coca-Cola's sales are outside the US, only 20% of Pepsi-Cola's are. Hence the significant marketing investment by Pepsi in Latin America, Europe and Asia Pacific over the last year.

As a result, during the heart of the recent recession in 1990, 1991 and 1992, growth in marketing services in the Asia Pacific and Latin American markets continued at double digit rates. Such growth has been maintained during the recovery of the more mature markets of North America and Europe which have largely been export-led. More recently, China, India and Vietnam have joined Taiwan, Thailand, Indonesia and Malaysia as expansion markets in Asia Pacific, as will Myanmar with approximately 45 million people. Similarly in Latin America, Mexico, Argentina and, very recently, Colombia have joined Brazil, Chile and Venezuela as growth markets.

The arguments for opportunity are simple, built around the consumer needs of massive populations – China with a population of 1.2 billion; India with a population of over 880 million; and Central and Eastern Europe with a population of over 385 million. Progress in Central and Eastern European markets has been checked by political instability. As a result, significant progress has been limited to the Czech Republic, Slovakia and Hungary, with a total population of some 26 million and to Poland with a population of about 38 million.

There are some signs of increased levels of activity in 1995 in Central and Eastern Europe, but the fastest growing regions will continue to be those of Asia Pacific and Latin America, in that order, until political stability and infrastructure development improve. Recent and welcome political changes in South Africa and Israel have also resulted in increasing attention being paid to the huge potential of Africa with over 600 million people and the Middle East with more than 150 million.

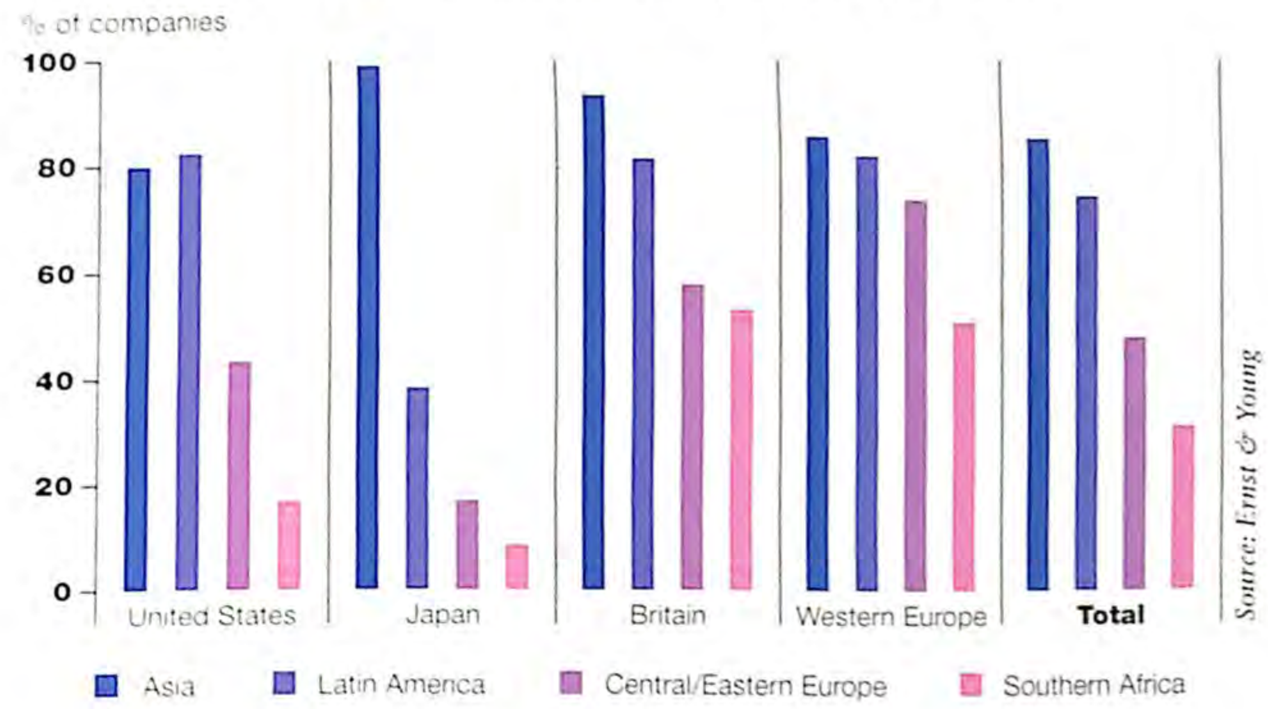
Given continued political progress it is quite possible that these areas of the world will compete with interest in Central and Eastern Europe. →

Internationalisation of multinational companies: sales outside home market (%)

Client	1983	1993	Change %
American Express	25	26	1
Ford	36	32	(4)
IBM	37	57	20
Kellogg	24	30	6
Kodak	37	49	12
Philip Morris	28	41	13
Unilever	36	44	8
Warner-Lambert	41	53	12
Average	**33**	**42**	**9**

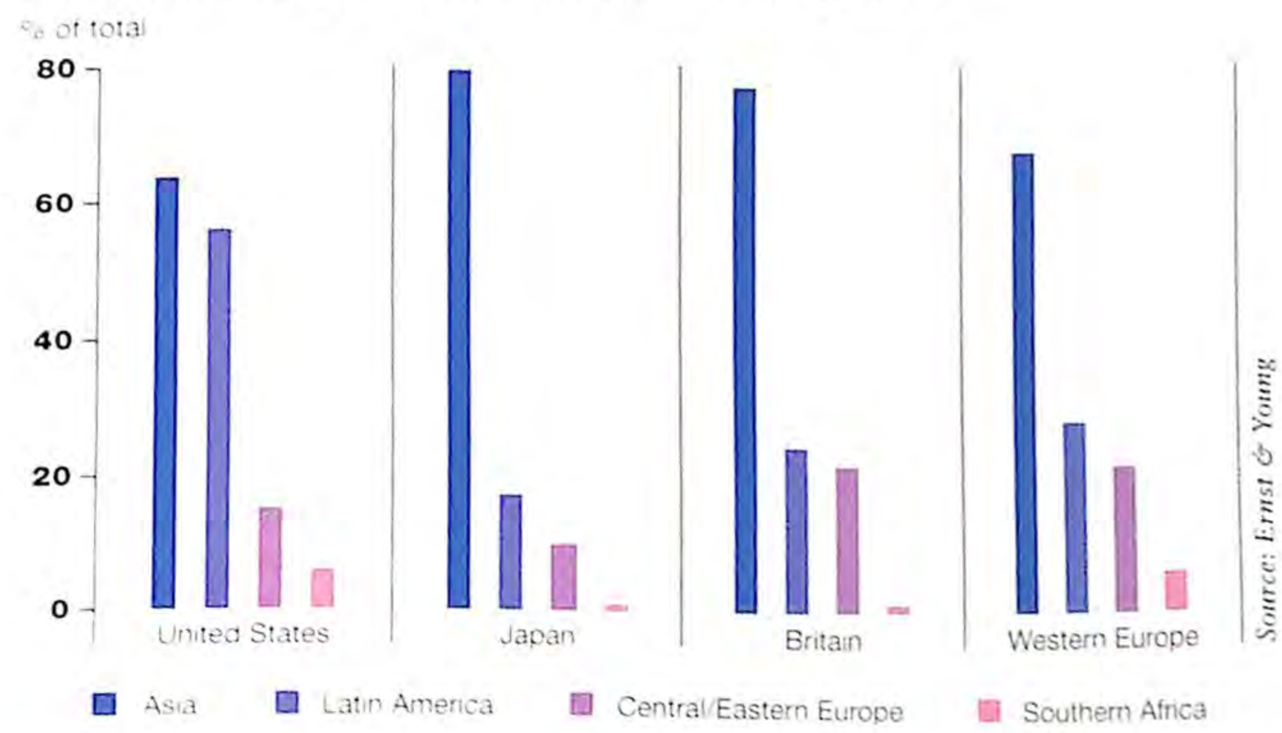
Source: Annual Reports, Standard & Poor's, EXTEL, Valueline

Multinational investment in growth markets



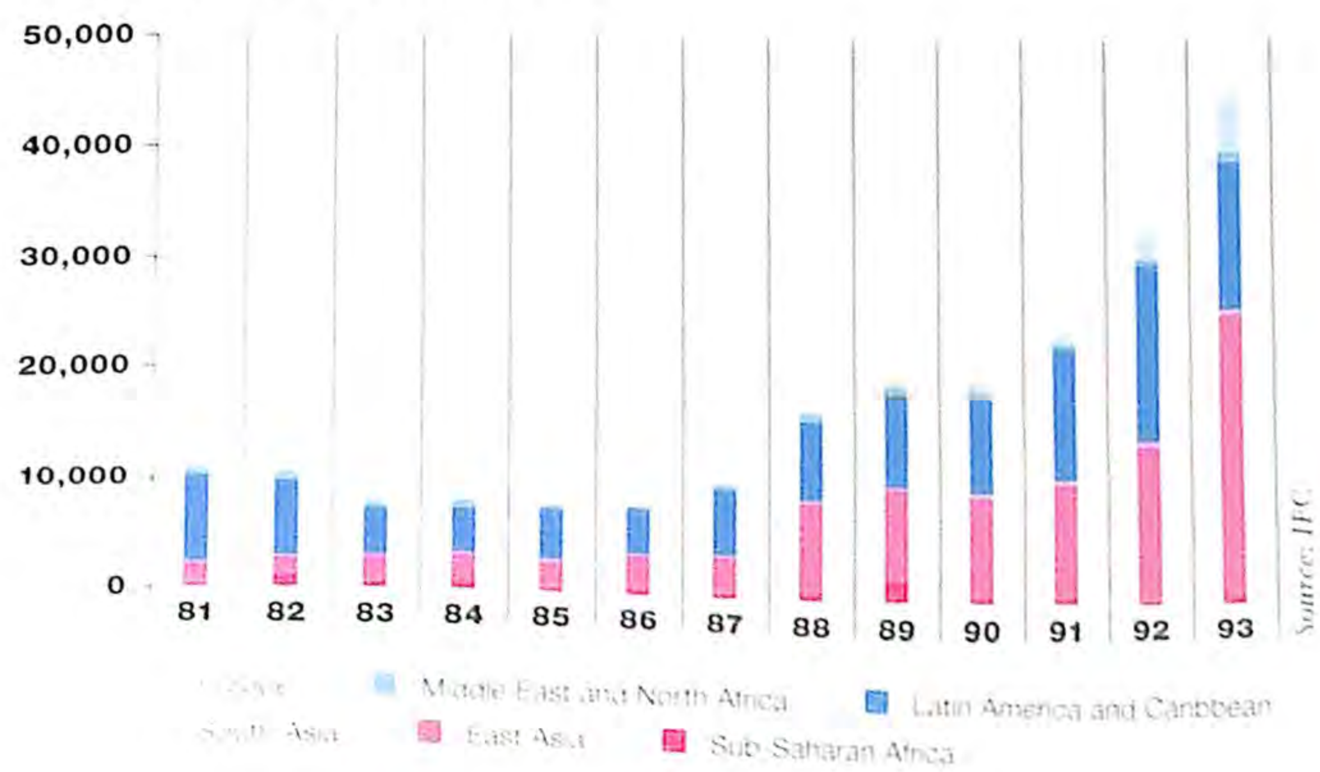
Source: Ernst & Young

Investment priorities in next two years



Source: Ernst & Young

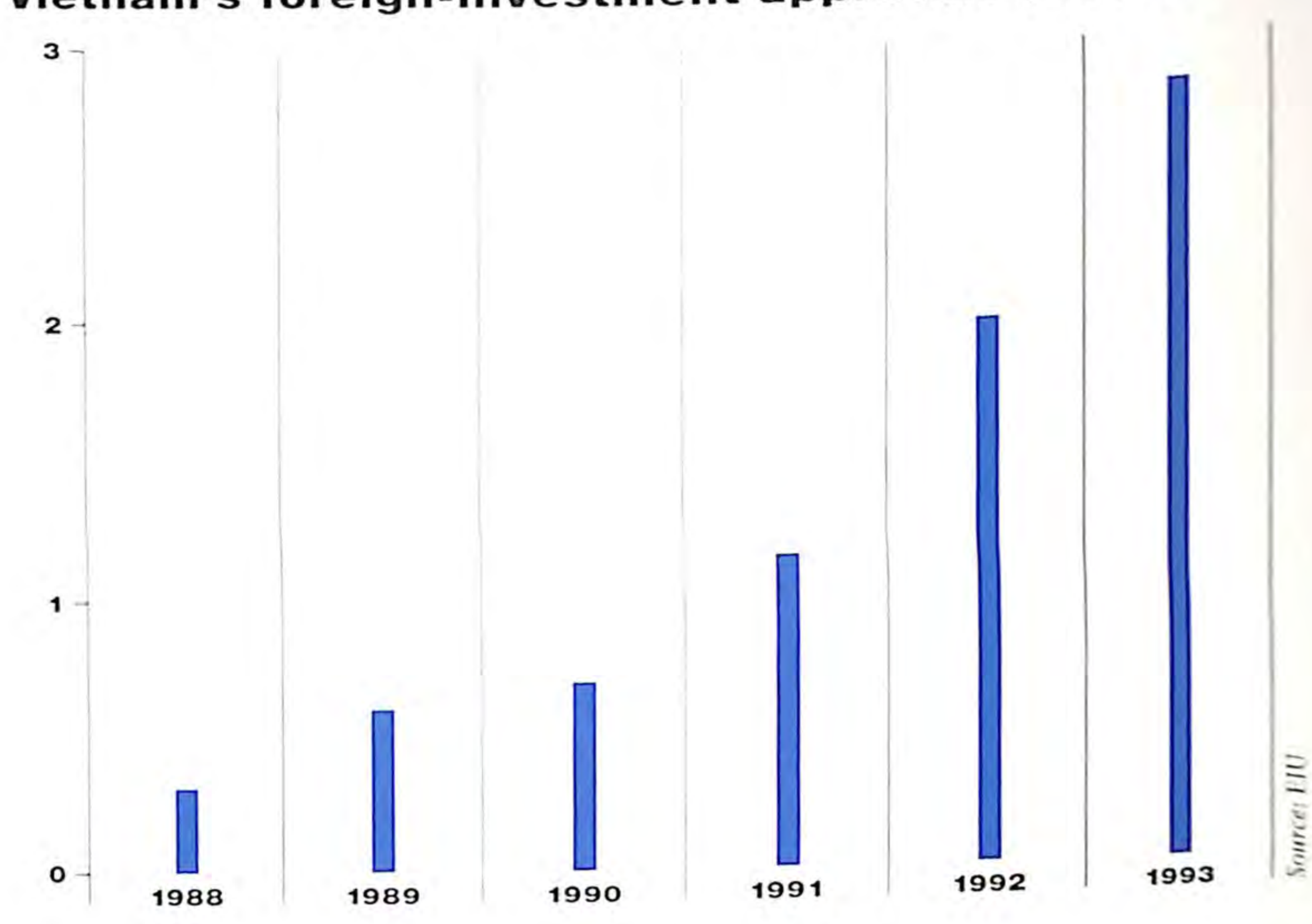
Net foreign direct investment flows to developing regions 1981-93 (US$m)



Source: IFC

The fall of communism has also stimulated these emerging markets. For example, Vietnam with 70 million people has altered its constitution to embrace capitalist methods of production and distribution and it offers a market significantly bigger than either Spain or Thailand, both of which have been amongst the most rapidly growing advertising markets in the recent past. At the same time governments throughout the world, whether capitalist, communist or socialist, have expanded the private sector through privatisation of significant sectors of the economy in an attempt to reduce national debts and public deficits. This has provided major opportunities for attractively-priced investment by clients in many industries including natural resources, transportation, telecommunication and media.

Vietnam's foreign-investment approvals (US$bn)



Client strategies

Most clients still commit themselves to growth targets of 5% to 10% per annum in profits or earnings per share. Given rates of population growth and GDP that are significantly less than this, particularly in the mature markets, there are three strategic options to explore which tend to vary with the state of the economic cycle.

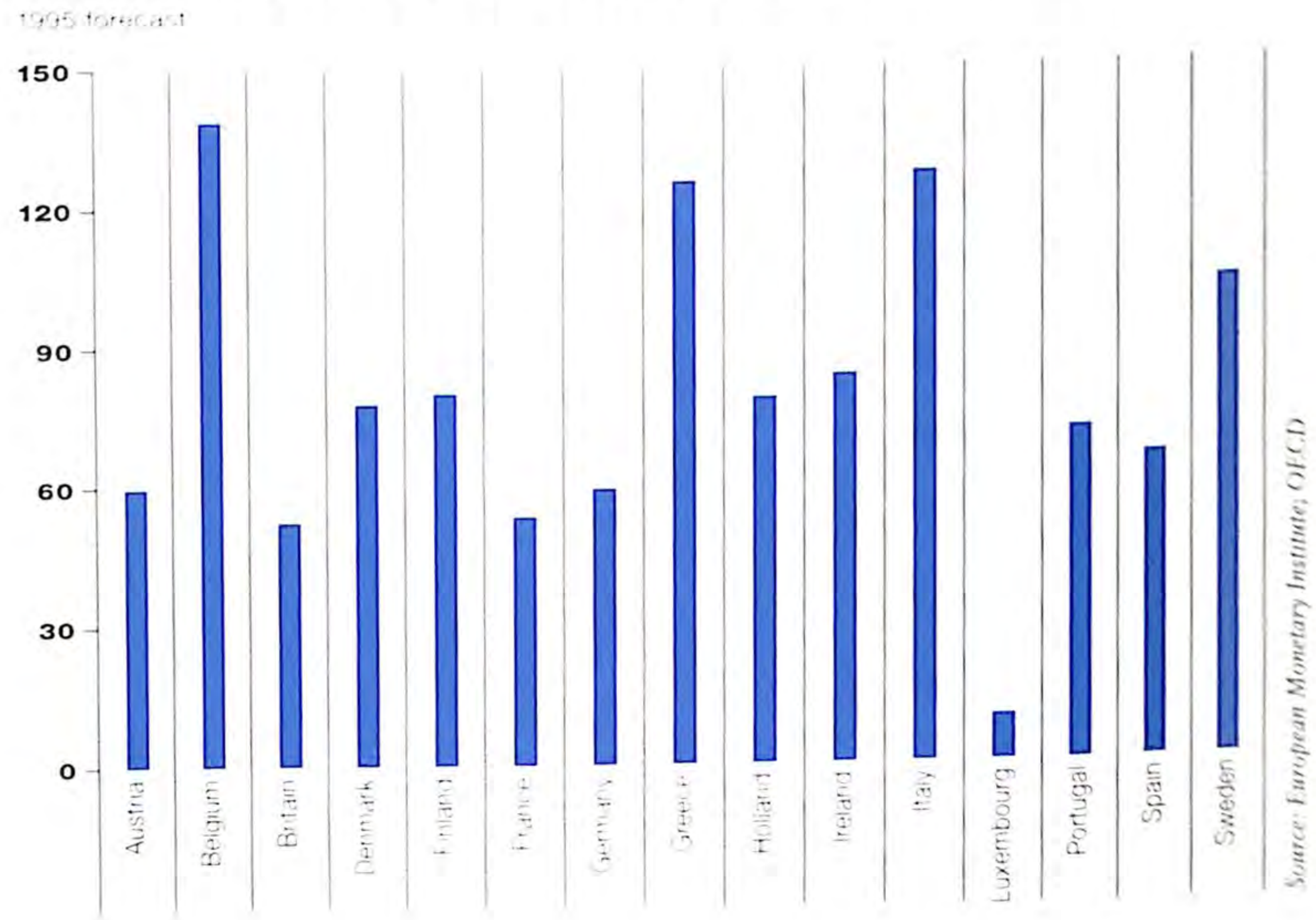
Cost cutting

In an economic downturn marketing companies attentions turn initially to cutting costs and increasing focus on core activities. At the beginning of this process there are significant economies that can be generated and significant improvements in returns that can be made by cutting out peripheral operations. With the development of technology there will probably continue to be opportunities to continue to lower costs through down-sizing, delayering, outsourcing, process re-engineering or whatever other buzzword is in vogue. Increased competitive pressures will demand it. However, there appears to be diminishing incremental returns from such activities, the principal gains having already been made.

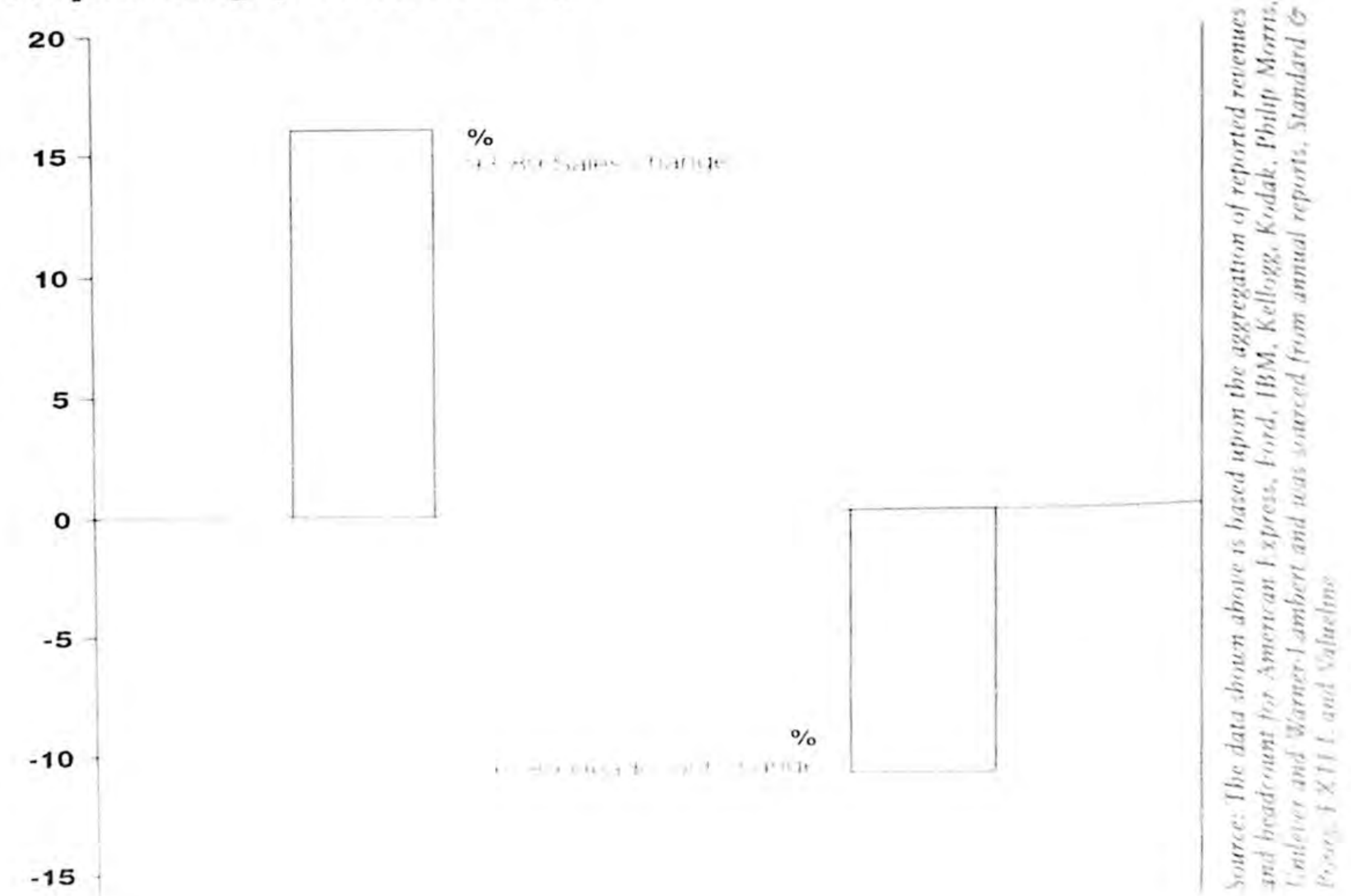
Acquisitions

As concerns about costs start to recede and perhaps a boredom factor starts to operate, chairmen and chief executive officers start to examine expansion opportunities, encouraged by lower costs of capital, lower interest rates and improving equity markets. Certainly, 1990, 1991 and 1992 were years when clients focused heavily on internal organisation and improvement. In 1993 and 1994 there seems to have been a significant increase in acquisition activity.

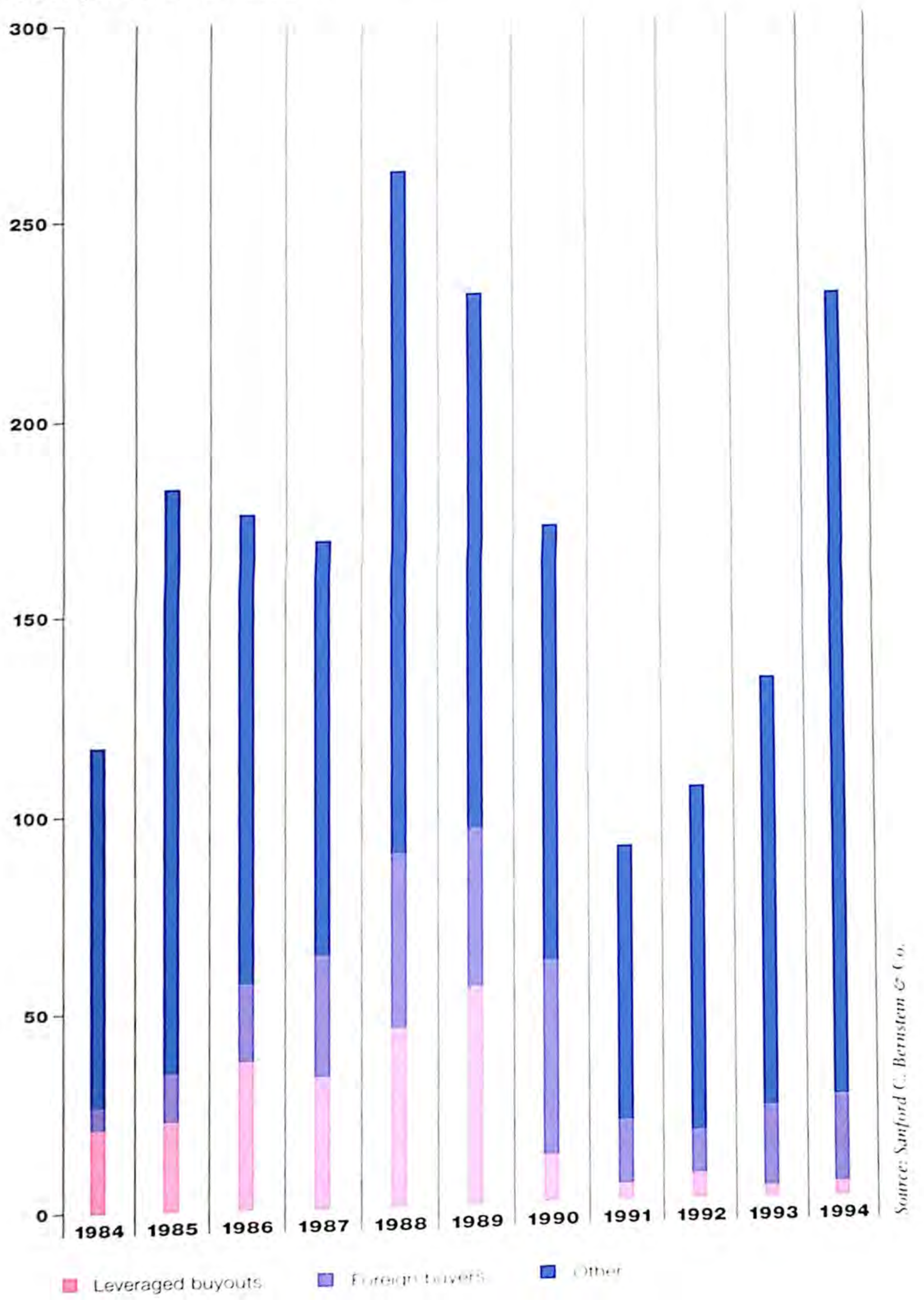
General government gross debt as % of GDP



Improving productivity



American mergers and acquisitions completed (US$bn)



Worldwide marketing services expenditure 1994 (US$bn)

	USA	UK	France	Germany	Japan	Rest of World	Total
Media advertising	[illegible]	[illegible]	8.1	[illegible]	34.6	104.4	325.0
Public relations	13.5	[illegible]	[illegible]	[illegible]	[illegible]	2.1	23.2
Market research	[illegible]	[illegible]	[illegible]	[illegible]	0.8	[illegible]	9.1
Specialist communications:							
Graphics & design	[illegible]	[illegible]	[illegible]		9.4	[illegible]	38.9
Incentive & motivation	[illegible]		[illegible]	[illegible]	[illegible]	1.8	[illegible]
Sales promotion	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	76.9	303.4
Audio visual communications	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	8.4
Specialised advertising	[illegible]			[illegible]	[illegible]	[illegible]	[illegible]
Direct marketing	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]
Healthcare	[illegible]	[illegible]			[illegible]	[illegible]	[illegible]
Total	**401.7**	**51.2**	**25.7**	**42.4**	**84.5**	**210.0**	**815.5**

Source: WPP estimates, Veronis Suhler, The Advertising Association, Dentsu News

One of the more puzzling aspects of this period has been the fact that acquisition pricing has remained relatively unaffected by the vagaries of supply and demand or the state of the financial markets. Price-earning multiples and multiples of sales paid seemed to fluctuate very little throughout the cycle. Perhaps this reflects the scarcity of and value placed on established brands and the cost and difficulty of establishing new ones.

Revenue growth

As growth prospects start to improve in the economic cycle, increasing attention starts to be focused on revenue growth and the top-line. Hence the geographical expansion noted before and perhaps the reason why media advertising started to pick up during 1994.

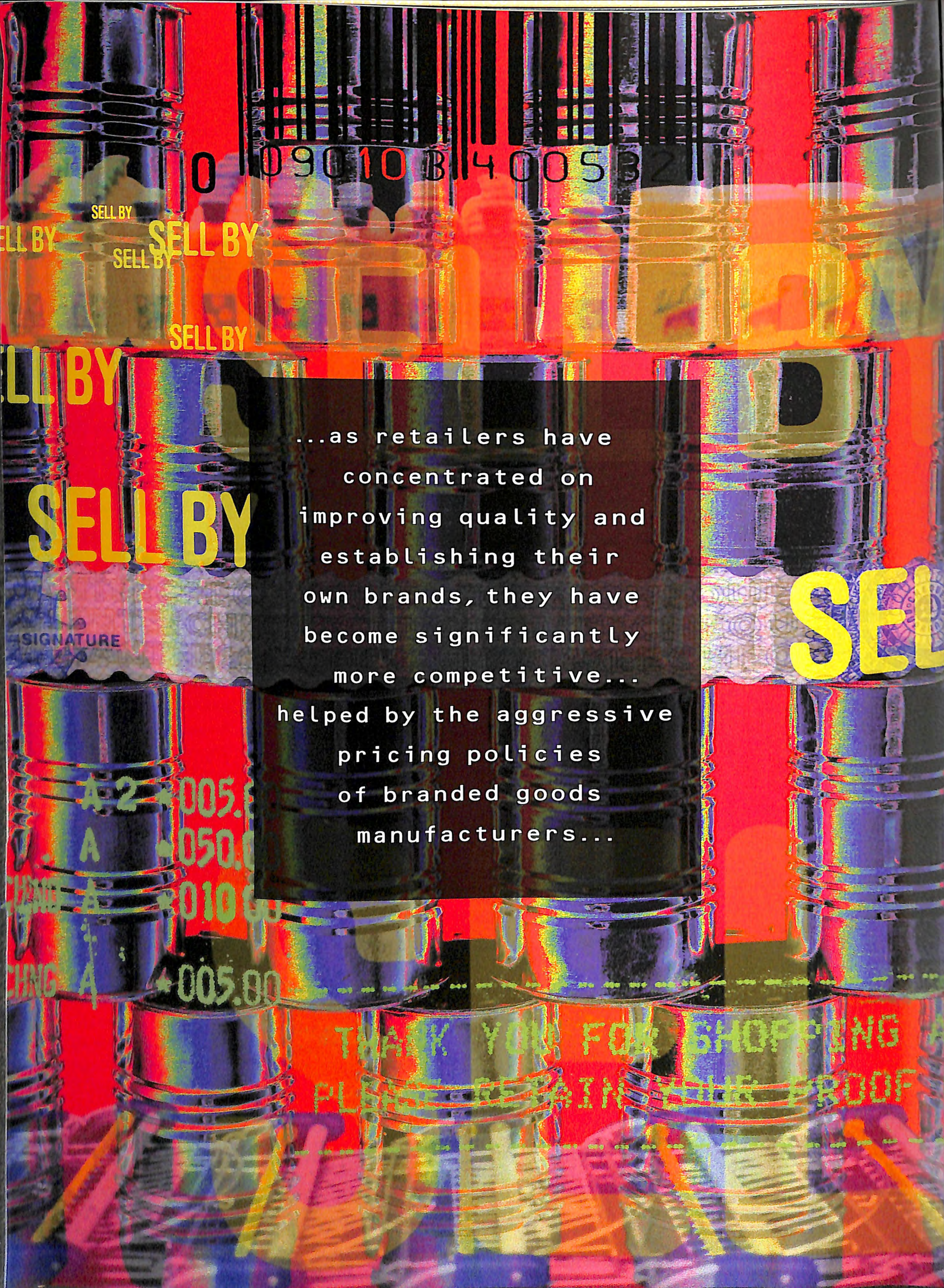
By and large, product and service differentiation is becoming tougher, and the skills and talent of marketing services companies more important as a result. Revenue growth can be stimulated by geographic expansion domestically and internationally. Manufacturers will increasingly look for technological advantages, no matter how transient or temporary. Service will become an increasingly important discriminator, especially with the development of more direct communication. A one-to-one relationship through interactive communications will enable marketing companies to better reach and understand their customers and differentiate themselves more effectively.

The demand for marketing services

Worldwide marketing services expenditure reached $815.5 billion in 1994. The two biggest market segments were worth over $628 billion between them. Media advertising accounted for almost 40% of the total and promotion for 37%.

Everyday low-pricing

The promotion figure is a little misleading as it includes both trade promotion and consumer promotion. In other words, it includes the costs that manufacturers incur in securing distribution for their products at both wholesale and retail levels. Costs such as trade discounts, slotting allowances and trade promotions are included in this figure. In the last couple of years some manufacturers have started to question the wisdom of pouring increasing amounts of money into trade promotion to secure shelf-space. This concern was heightened by the realisation that as much promotional activity was heavily price-orientated, it did little to encourage brand loyalty. Increases in market share were temporary. Hence the development of so-called everyday →



...as retailers have concentrated on improving quality and establishing their own brands, they have become significantly more competitive... helped by the aggressive pricing policies of branded goods manufacturers...

low-pricing marketing strategies, where prices were more stable and trade support was more restricted.

This move in promotional practices has resulted in more 'strategic' promotional activity and a shift in marketing expenditure from below-the-line to above-the-line media advertising. It may, to some extent, explain the recent increase in network television advertising in many categories.

Fear and the short-term outlook for marketing services expenditure

Marketing services expenditure is determined by two key factors – consumer expenditure and corporate profitability. Given the outlook for both factors, 1995 will probably see a similar increase over 1994, as 1994 saw over 1993 – approximately 5% in nominal terms or 1% to 2% in real terms, perhaps more. The stronger growth rate reflects increased levels of activity in the US and Continental Europe, and continued growth in Asia Pacific, Latin America and, perhaps surprisingly, the UK.

Whilst these growth rates are reasonable they are certainly not spectacular and not on a par with the 1980s. They seem to reflect the considerable level of fear and uncertainty of unemployment that affects both consumers and managers. This, in turn, is reflected in their unwillingness to make substantial and continued commitments to expenditure.

In an environment of low inflation, tight monetary policy and higher than usual unemployment, this may persist. However, there is a significant chance that the political cycle will override long-term economic considerations. In 1996 there will be a US Presidential election, and 1996 or 1997 will see a general election in the UK. Already both administrations are trying to stimulate the feel-good factor by reducing taxation.

If they continue to introduce these policies and intensify them inflation will certainly increase the growth rates of marketing services expenditures in 1996 and 1997, but raise the spectre of another hard landing later on in 1997 and 1998.

The two long-term trends in the marketing services industry

As WPP celebrates its tenth anniversary, two long-term trends are even more apparent today than 10 years ago.

First, non-media marketing services expenditure continues to grow faster than media advertising. In the 1970s and early 1980s, media inflation outstripped general price inflation, network television maintained a stranglehold on the supply of television time and advertising agencies earned a royalty on the resultant price inflation through the commission system. Increasingly, clients began to →

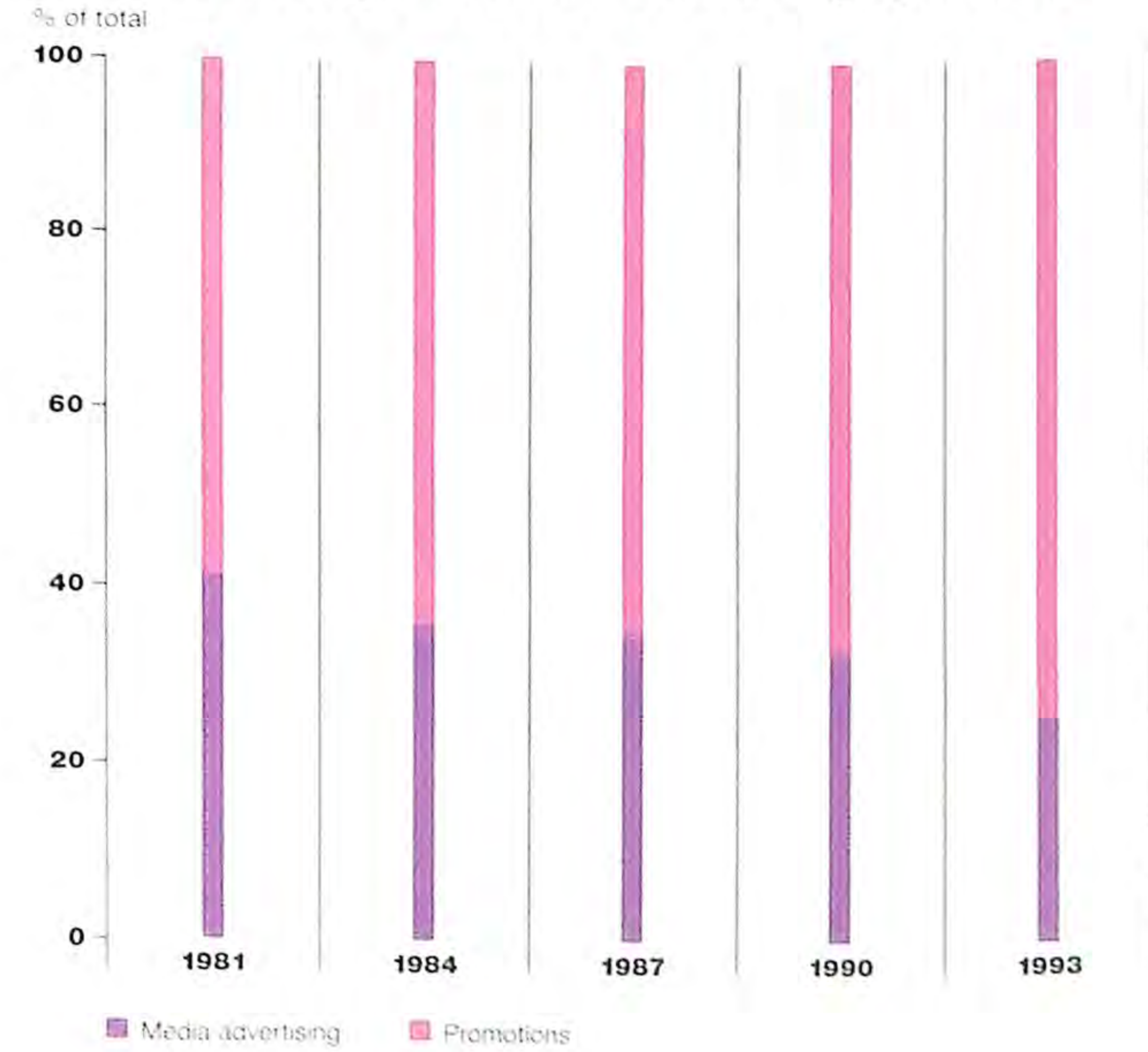
Key indicators (%)

	1994	1995	1996
United States			
Real GDP growth	4.0	3.3	2.3
Consumer expenditure	3.5	2.9	2.1
Corporate profitability[1]	12.5	6.9	3.8
United Kingdom			
Real GDP growth	3.8	3.2	2.8
Consumer expenditure	3.8	2.2	2.6
Corporate profitability[2]	15.0	11.2	8.1
Continental Europe			
Real GDP growth:			
Germany	2.9	3.1	3.2
France	2.5	3.1	2.8
Italy	2.3	2.9	2.8
Netherlands	2.4	2.9	2.8
Sweden	2.0	2.4	2.4
Spain	2.0	2.9	3.3
Latin America			
Real GDP growth:			
Argentina	6.5	(1.6)	0.6
Brazil	5.3	4.0	3.1
Chile	4.5	6.0	6.2
Colombia	5.7	5.9	5.2
Mexico	3.1	(2.7)	(1.7)
Peru	12.9	7.9	4.5
Asia Pacific			
Real GDP growth:			
Australia	5.5	4.1	3.7
China	11.2	9.4	n/a
India	5.1	5.7	n/a
Indonesia	6.8	7.1	6.8
Japan	0.8	1.8	2.9
Malaysia	8.6	8.3	7.8
New Zealand	5.3	3.9	3.5
South Korea	8.0	7.4	6.7
Taiwan	6.2	6.4	6.4
Thailand	8.4	8.5	n/a
Singapore	10.0	8.3	7.6

[1] pre-tax profits [2] trading profit

Source: Consensus Forecasts, EIU, IMF

US consumer-goods firms' marketing spending



Source: Donnelley Marketing Inc.

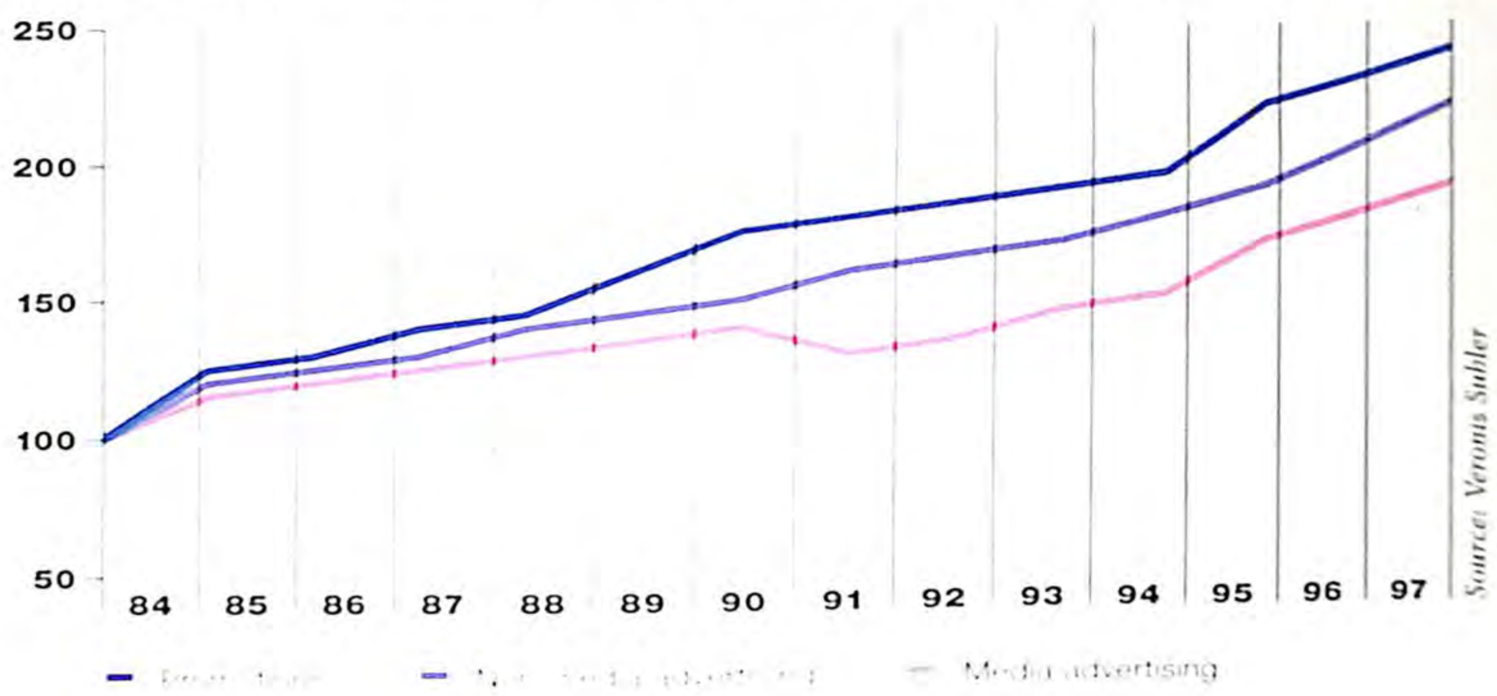
question the value and effectiveness of media advertising and, in particular, television advertising.

In the 1990s with general price inflation under greater control and clients experimenting with alternative forms of agency remuneration, they have diverted a greater proportion of their marketing services budgets to alternative means of communication such as direct marketing, identity and design, audio-visual and specialist communications.

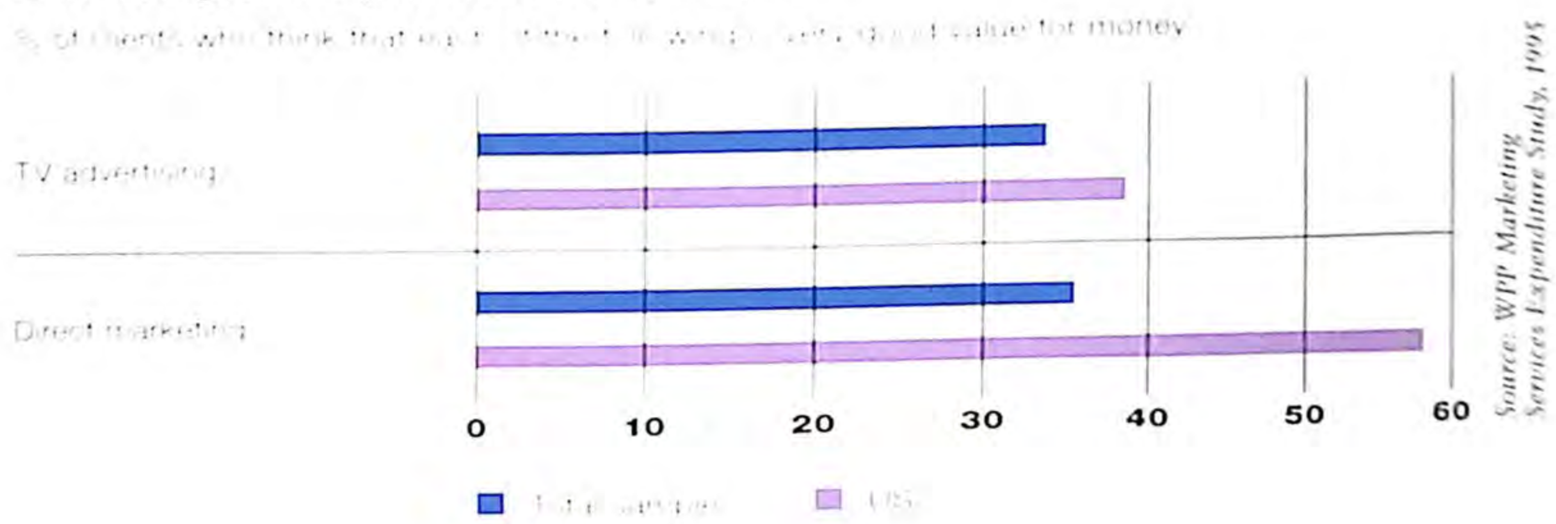
Secondly, marketing services expenditure is growing faster outside the US than inside. Greater inward and domestic competition in mature markets, greater free trade, improved technology and communications, easier technology transfer, all encourage exploration of new markets. Over the last decade Korea (now the second largest advertising market to Japan in Asia Pacific), Taiwan, Hong Kong, Singapore, Thailand, Indonesia and Malaysia in Asia Pacific, and Mexico, Chile, Argentina and Venezuela in Latin America have become important markets. India, Vietnam, China and Colombia are now following with South Africa, Israel and the Middle East not far behind.

Advertising and marketing services expenditure as a percentage of GDP and marketing expenditure per capita are at considerably lower levels in these faster growth markets. The balance of this growth is likely to be skewed to Asia Pacific and Latin America as governments are more stable and welcoming, rather than Central and Eastern Europe which continue to be constrained by a lack of political stability and infrastructure.

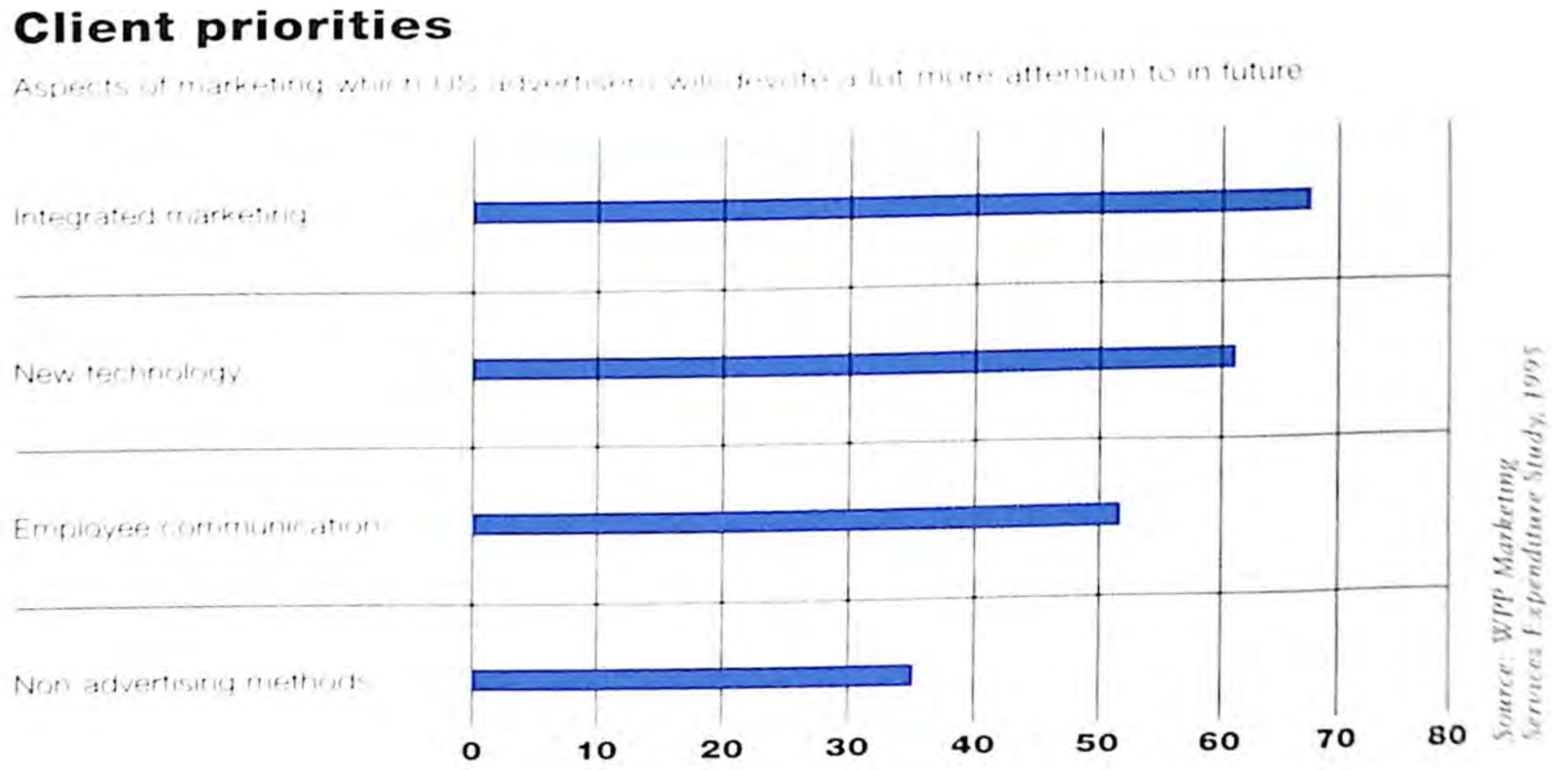
Faster growth in non-media advertising (1984=100)



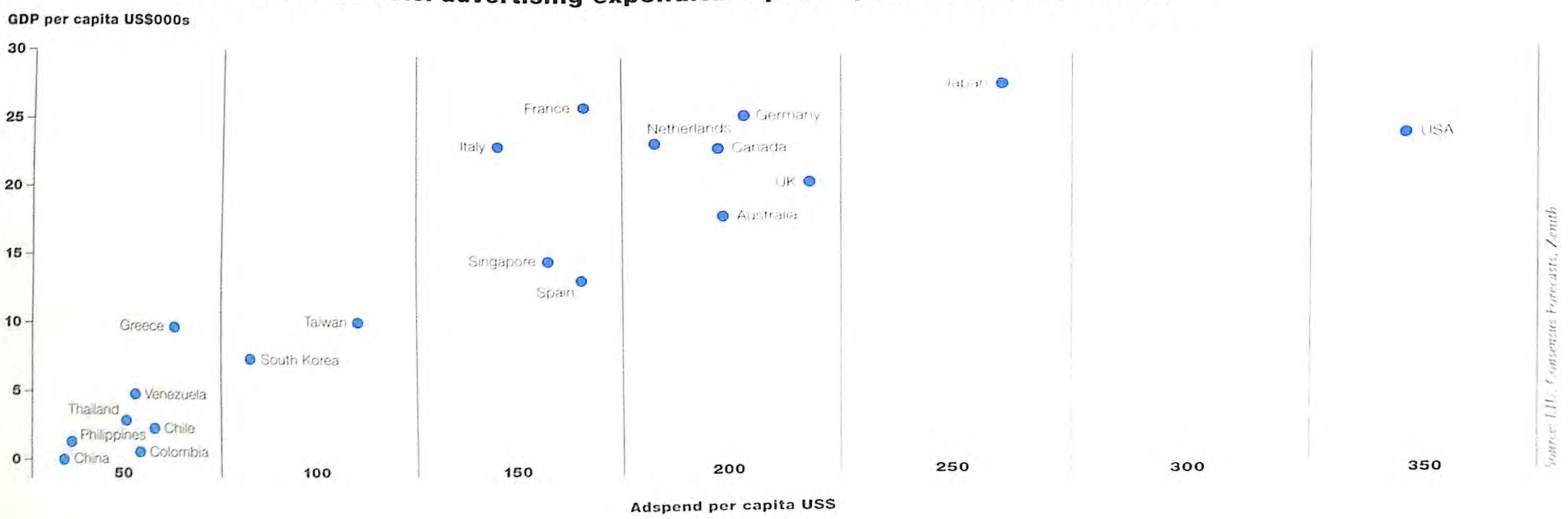
Client perceptions of media



Client priorities



Growth potential of newer markets: advertising expenditure per capita vs GDP per capita



Threats and opportunities

Organisational structure: the imperative for change

The perception is that people in marketing services and advertising are very adventurous and on the cutting edge of youth culture and trends. In truth, we are probably more conservative than investment bankers, accountants, lawyers and actuaries. Given their history, our specialist companies tend to be organisationally flat and process-driven. But whilst our clients have been making significant organisational and structural changes and with it significantly reducing their headcounts, advertising and public relations organisations remain relatively untouched and unaltered.

Advertising agency structures are much the same as they were 80 years ago. In some cases the only difference is that today's creative department was called the editorial publicity department. It seems difficult to believe that the vertical silos that dominate agency structures can be the best way to service clients whose own processes have been so horizontally re-engineered.

One of the advertising industry's strongest features is that it watches client changes very carefully and it's clear that the single most common feature of client activity is a trend towards greater co-ordination of their activities. This is not, by the way, in conflict with the current fashionable ideas of greater decentralisation, autonomy or empowerment. What it seeks to do is maximise the economies of learning and brand investment. It makes little sense for different parts of an organisation not to share their experience or knowledge. Historically country management structures have made it more difficult to share these thoughts, and as a result clients have moved to product or functional structures on a worldwide or regional basis, particularly in mature markets. Whether clients believe this to be the best thing to do because they will be more effective or because competitive pressures are forcing them to reduce costs in this way, the net effect is a much more horizontal, process-driven client.

Faced by clients co-ordinating themselves more effectively on a global, multinational, regional or brand basis, agencies will have to examine and change their structures. What it will require is perhaps the qualities and application of the long gone organisation and methods departments which critically examined how jobs were done and departments organised. It is a pity that experiments in agency organisation to date have not been well received or executed. Cluster experiments where vertical departments are abandoned in favour of horizontal client-based teams of experts have been unsuccessfully introduced in two non-WPP agencies in New York. Intriguingly, the faster growth markets of Asia Pacific seem to be less conservative. One non-WPP agency in Thailand has recently totally re-organised itself horizontally on a brand basis. These experiments will have to be revisited.

Within WPP, both J. Walter Thompson Company and Ogilvy & Mather Worldwide have begun to experiment with information technology-led attempts to improve their internal processes and methods of client interaction. We must now build on these and significantly expand their scope. Such analysis and change has been accomplished in other professional services businesses, such as banking, where significant organisational change has been affected by using talent within the organisation itself to develop improved methods and implement change.

To some, particularly in the creative departments of advertising agencies, these thoughts might seem a long way away from the creative process. However, unless the organisational structure is improved by making it more responsive to our consumer, our clients, and hence more horizontal we will continue to invest and spend resources in areas which hinder rather than speed the creative process. Some clients have even expressed the view that in-house agencies respond more quickly and more effectively to briefs than full-service out-house ones. An improvement in organisational structure offers the opportunity to respond to the increasingly competitive environment that our clients face and hence become faster, more focused, friendlier, more flexible and fitter – to plagiarise Professor Rosabeth Kanter at Harvard University Graduate School of Business Administration. This was the real message behind CAA's wresting of the Coca-Cola account. The apocryphal story is that CAA presented 20 ideas to the client with three people, and its competitor presented three ideas with 20 people.

One of the implications of these changes will have to be a continued movement away from agencies organised along purely geographic lines. Traditionally agencies were organised by geography first, function second and client third. Increasingly it is the other way around – client first, function second and geography third. Both J. Walter Thompson Company and Ogilvy & Mather Worldwide now give as much weight to global directors in charge of key multinational accounts as they do to regional directors. The path to the top at an agency will continue to be through broadened client responsibility as well as enhanced geographic responsibility.

Agencies can help themselves by setting up client-based profit centres where worldwide client profitability is analysed and agency personnel have a matrix of responsibilities often with three bosses – client-based, functionally-based and geographically-based. →

...the single most common feature of client activity is a trend towards greater co-ordination. This is not in conflict with the current fashionable ideas of greater decentralisation, autonomy or empowerment. What it seeks to do is maximise economies of learning and brand investment, not scale.

Big or small?

Related to organisational structures is the issue of the likely structural development of the marketing services industry. Will large agencies dominate the industry, with their breadth of geographical coverage and co-ordination strengths? Or will smaller agencies with their greater flexibility and responsiveness and harnessing of new technology provide clients with the creative output that they require and outmanoeuvre the large agencies? Or will large and small agencies co-exist side-by-side, the large agencies tending to align themselves more with the global and multinational clients and the small agencies working on a national level or providing a safe haven for a multinational client who becomes frustrated with the unresponsiveness and bureaucracy of a large agency?

Perhaps the latter, compromise scenario, is most likely. 1994 was the year of the larger agency. In the biggest account move in advertising history IBM consolidated its worldwide advertising business from more than 40 agencies into one, Ogilvy & Mather Worldwide. TBWA, Ammirati & Puris and Chiat Day all succumbed to the big battalions and relinquished their independence despite being led by idiosyncratic and iconoclastic entrepreneurs. Why? Financial pressures were sometimes an issue. Succession plans, too, played a part. Offers too good to refuse appealed to others. However there does seem to be a genuine feeling that increased co-ordination by clients on a worldwide basis inevitably means that smaller agencies do not have the operational scope to deal with the demands of multinational clients. Other small agencies that cannot stomach surrendering their independence (at least before wishing to capitalise on their value and before the retirement of the founders) have sought half-way houses by entering into non-equity network arrangements or selling minority interests to give clients the feeling that they can provide worldwide exposure – a feature which was prominent in the arrangement between McCann-Erickson and the smaller, more creative Weiden & Kennedy; and New Saatchi and Publicis.

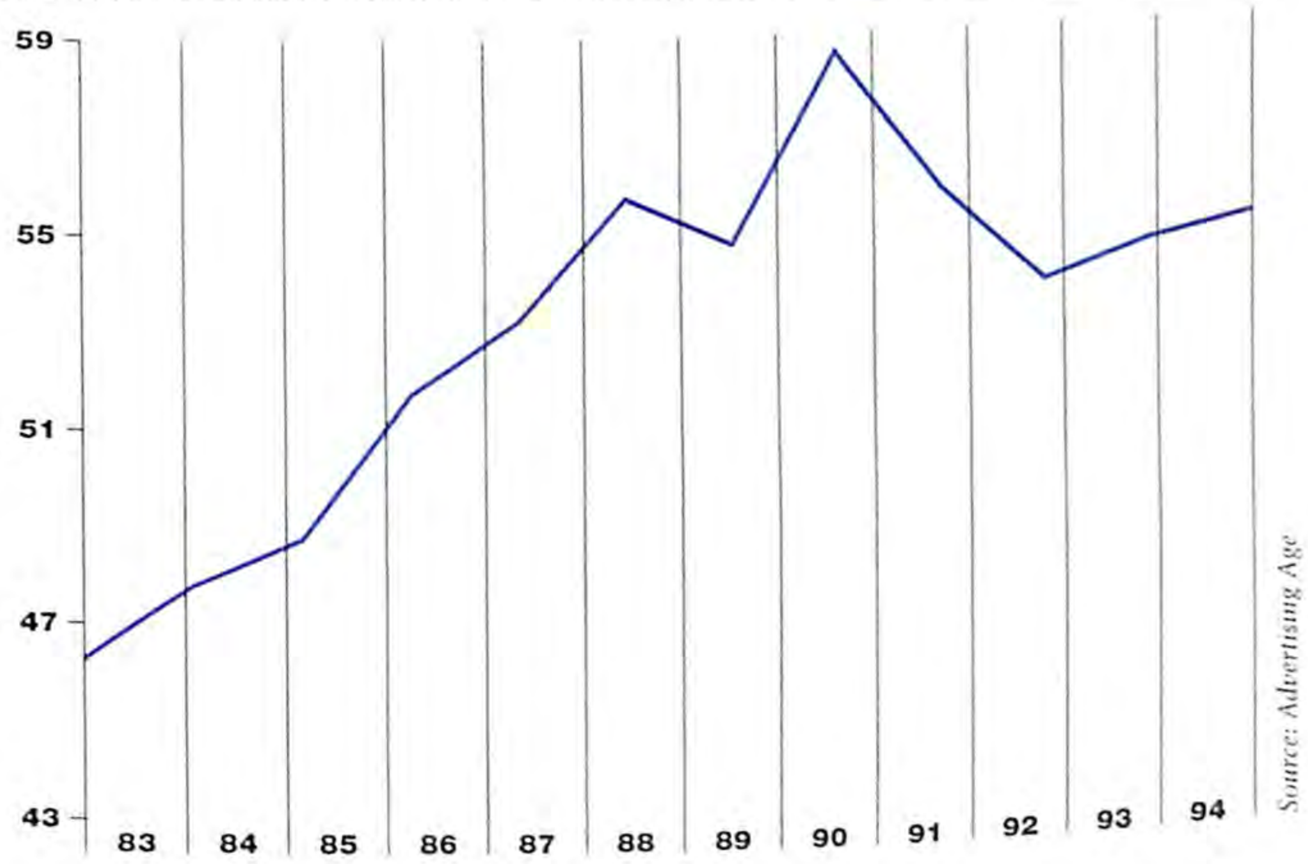
As a result, the market share of the bigger agencies has continued to grow. There are only 16 agencies which operate in more than 40 countries, and these are owned by nine holding companies. With the exception of Japan, agencies rarely develop monopolies and find it difficult to differentiate themselves. However, there is a strengthening oligopoly of multinational agencies capable of dealing with multinational clients. This is most easily seen at work when major multinational account shifts take place and where clients insist on enforcing rigid conflict policies. When Mars made its decision to shift its major accounts, the actual range of available options was limited and even those agencies invited to present were ultimately restricted by →

Multinational agencies with offices in more than 40 countries

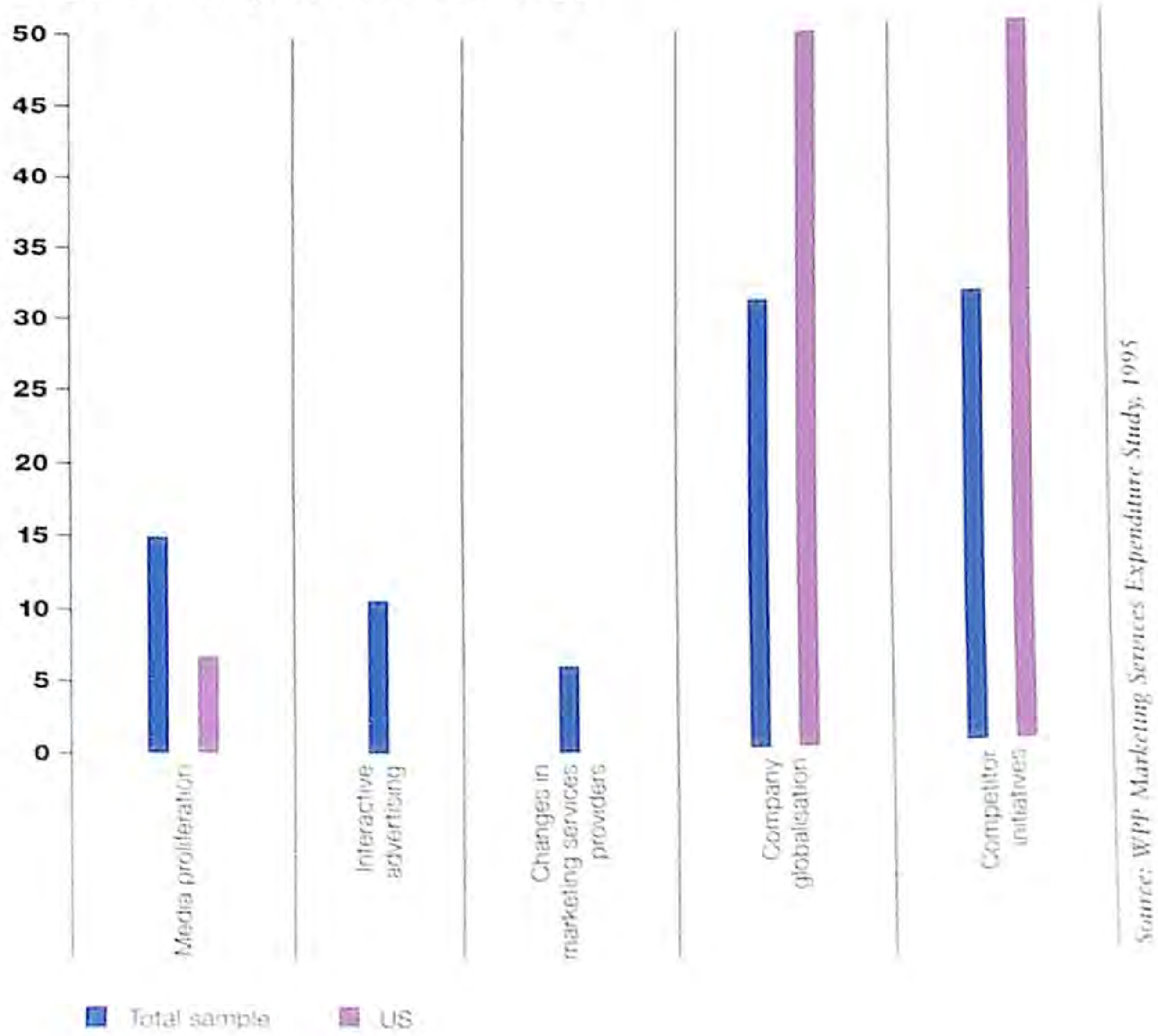
Group	Agency	No of countries	No of clients in more than 10 countries
WPP	Ogilvy & Mather	61	27
	J. Walter Thompson	65	23
Omnicom	BBDO	63	25
	DDB Needham	74	16
Interpublic	Lintas	49	14
	Lowe Group	54	6
	McCann-Erickson	90	34
Cordiant	Saatchi & Saatchi	69	22
	Bates	57	19
Others	Bozell	56	18
	DMB&B	57	8
	Leo Burnett	50	13
	Euro RSCG	47	13
	FCB Publicis	51	14
	Grey	67	36
	Young & Rubicam	61	19

Source: Advertising Age

Market share of Advertising Age top 10 agencies (%)



Biggest impact on strategy



client conflict from taking business offered. If last year's experience seems to indicate greater concentration, the opposite was true in the case of Coca-Cola which continued to splinter its advertising account between more agencies, large and small. New agencies will continue to be born, particularly on a national level. As a result, the large agencies will have to demonstrate the competitive strengths of the small agencies – creativity, responsiveness and lack of bureaucracy – if they are to keep their clients satisfied.

Attracting bright young people

Good young people continue to be strongly attracted to investment banking and management consultancy. At many business schools, for example, 40% of the graduating class are joining these two disciplines. These activities offer wide exposure to a number of industries and a variety of projects, as well as significant responsibility at an early age and attractive financial rewards.

These factors alone do not explain why first and second degree graduates are so attracted to these industries. The fact is that the most senior management of both investment banks and management consultancies are intimately involved in the recruitment and selection of young talent. They realise the crucial importance of bringing in the best and the brightest and their efforts tend to be consistent over long periods of time, not varying with the economic cycle.

Many people in the marketing services industry believe that there is a dearth of talent. However, the problem may well be that not enough effort is made to attract the right talent. As with so many things, David Ogilvy spotted this problem years ago when he questioned why his friend Marvin Bower was able to attract such good graduates as he built up McKinsey & Co. The problem still exists. If anything it is worse nowadays, mainly because of significant levels of insecurity in the business. If you ask many people at the higher levels in the advertising industry how they feel about their jobs, they will tend to cite intense pressure from their clients and a lack of resources. However, if you talk to people at the middle and lower levels they will tend to indicate that they are under-stretched and not extended sufficiently. Unlike management consultancies, advertising agencies have yet to figure out how best to develop and exploit the young talent which it does attract.

There is an opportunity here to develop consistent recruitment and training programmes, particularly those that stress multi-disciplinary approaches which clients increasingly favour. The marketing services industry is an extremely attractive prospect to the young graduate. Apart from being an extremely enjoyable and agreeable way of earning a living, there are few industries that can offer such a wide exposure to so many industries and so many companies. Its excitement lies in its variety and its ability to influence clients at the highest level. The challenge is to communicate that excitement as effectively as other industries have done.

Interactive fallout?

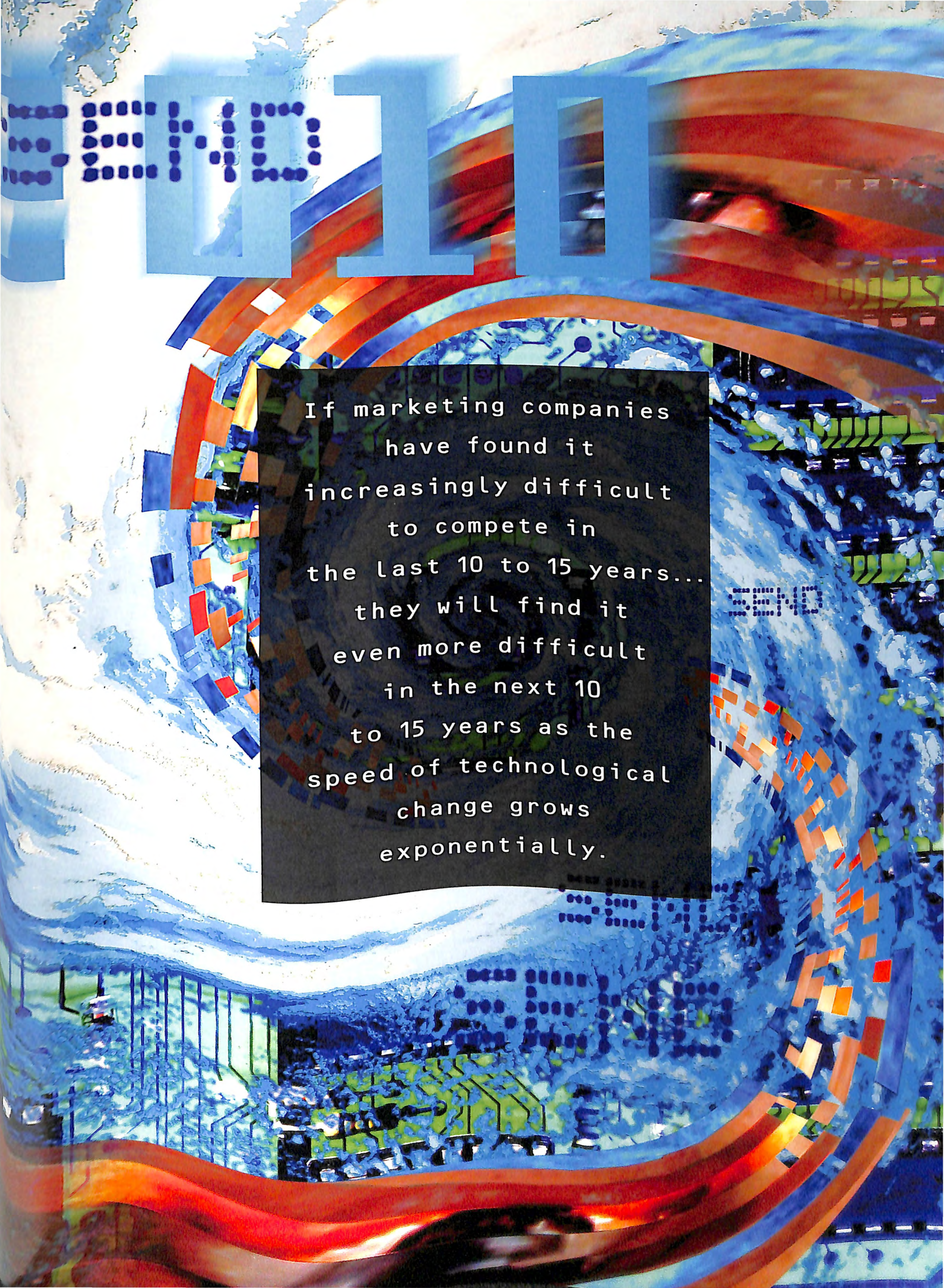
Not only did David Ogilvy spot the importance of recruiting bright young talent some 30 years ago, but he recognised the growing importance of direct communication and direct marketing. Interactive communication, which is currently by far the sexiest and most fashionable sector of the marketing services industry, can be viewed as an extension of direct marketing, providing unique ways of reaching highly targeted consumer individuals in an effective way.

Over the past two or three years it seems that not a day has gone past without a new alliance being announced by telecommunication companies, consumer electronic companies, computer companies and media and entertainment companies. Intriguingly, some of the most effective experiments are being conducted in Asia, in Singapore, Hong Kong, Thailand and Taiwan. Needless to say, there is much excitement and not a little confusion. The more honest investors admit to total ignorance about the prospects and chances of success, and concede that considerable sums of money will be lost in the process.

Marketing services companies can bring little to the technical side of the debate. Their skills lie, rather, in assessing what the consumer wants, what he or she is willing to pay for it and how best to communicate with those consumers. Once these questions have been addressed they can focus on developing the advertising or promotional content for the chosen medium.

There have been delays in the development of interactive experiments, and for the first time we are now starting to see open acknowledgment of unsuccessful or unprofitable investments. This is likely to continue. For the moment, interactive investments should be viewed as venture capital – some will succeed, most will not.

The skills of the marketing services industry can be used to prevent costly failures and focus clients' attention on the consumer. Too often in the past, during similar technological revolutions, the engineer or scientist has developed a product in the confines of a laboratory without first defining the consumer need that it catered for, and as a result the launch has been a commercial failure. In the case of interactivity, marketing services companies can prevent that happening. →



If marketing companies have found it increasingly difficult to compete in the last 10 to 15 years... they will find it even more difficult in the next 10 to 15 years as the speed of technological change grows exponentially.

A greater need for co-ordination between creative and media?

Network television did dominate the 1970s and 1980s with a prime-time viewing share in the United States, for example, of over 90%. Today its share is under 70%, but it still represents the quickest way of reaching the largest number of people in the shortest period of time at the lowest cost per thousand. It is interesting to note that despite the declining market share, which is true in most mature markets, there is even more interest today in investing in and owning a major television network.

Since the late 1980s the dominance of network television has been challenged by the growth of alternative networks, satellite and cable television. In addition there has been a parallel expansion and fragmentation in the supply of other forms of media such as radio, magazines and consumer publications.

Despite this increase in the supply of media, media price inflation is once again a cause for concern in North America, Europe and Asia.

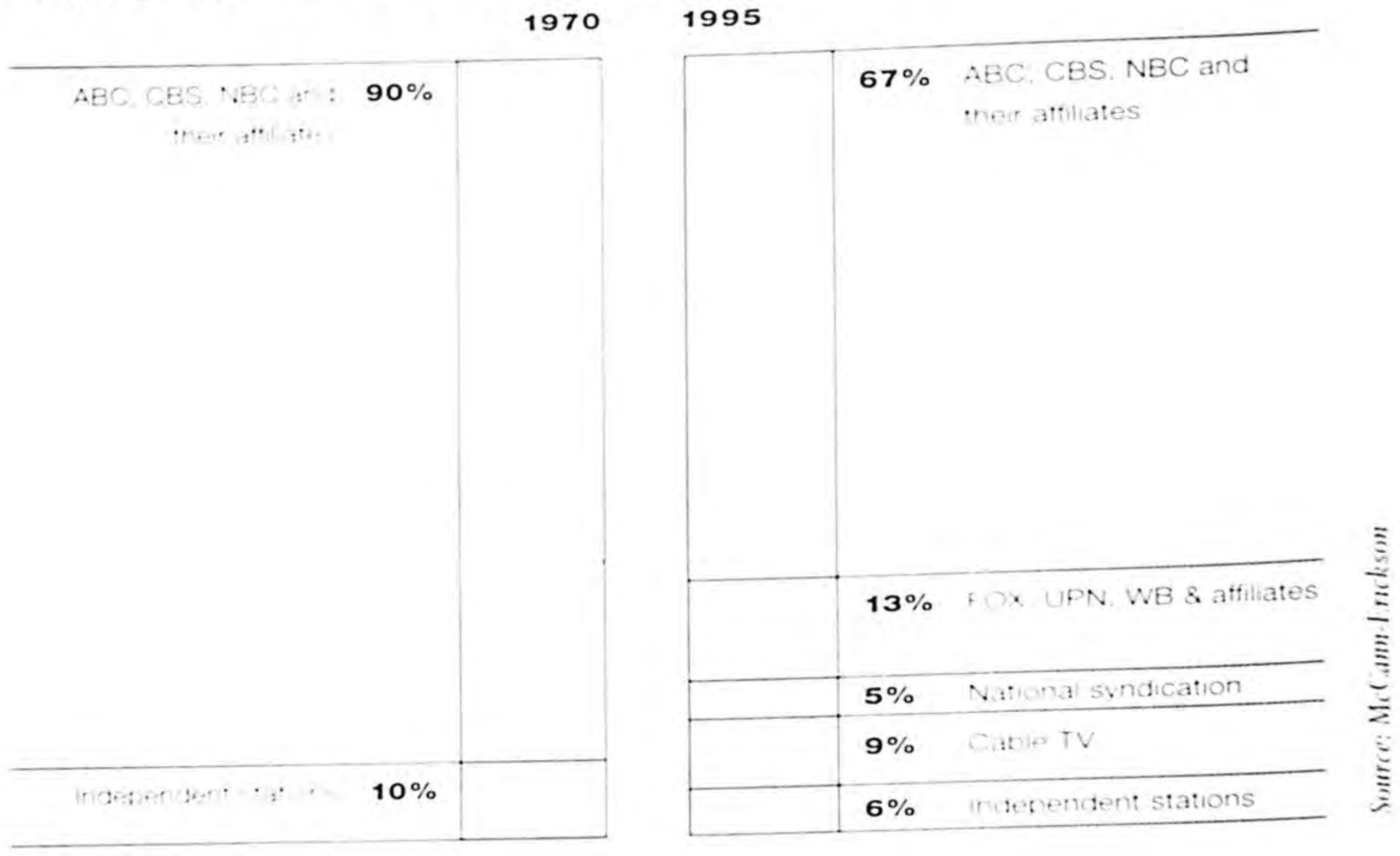
Demand for quality (mass audience) time and space has not lessened with the arrival of newer, more niche opportunities. Particularly in North America and Europe, emerging from the recession of the early 1990s, there is increased pressure on prices, whether as a result of advertisers increasing expenditure, the growing concentration of media ownership or specific sector issues such as the worldwide crisis in the supply and cost of newsprint.

The fragmentation of the media will give clients the opportunity of reaching better defined and targeted consumers in a more effective but higher cost way. In other words, cost per thousand will no longer be relevant, but effective cost per thousand will be. In these circumstances, it will be even more important to link creative thinking with media planning and media buying. Given the increasingly competitive environment, and the recent recession, clients have examined unbundling their creative and media requirements as a short-term way of reducing costs. With increasing media fragmentation it makes more sense to co-ordinate creative and media activities rather than splinter them. It will be more difficult, and therefore more important, to devise and implement creative executions across a multiplicity of media. Creative and media departments need to communicate closely with one another. This will not be achieved by clients splitting their business between creative boutiques and media buying companies.

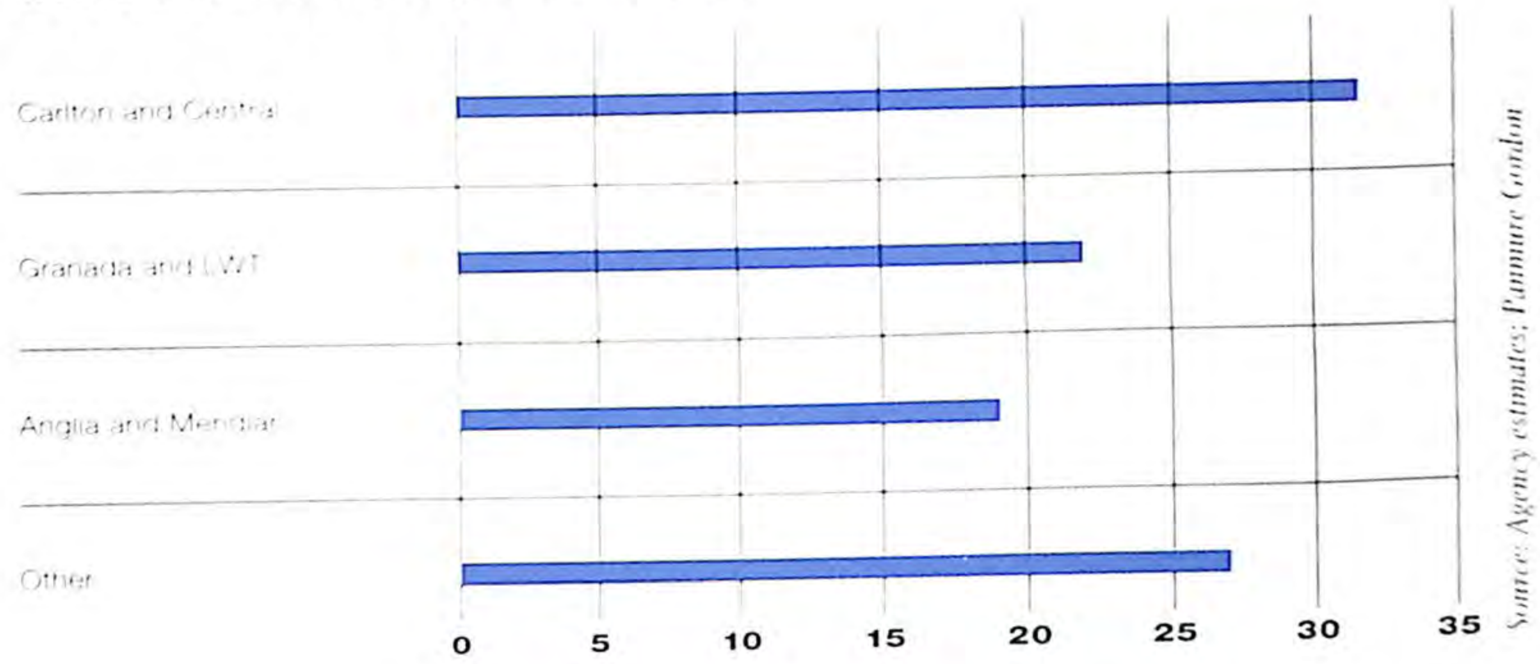
Up or down the value chain

The marketing services business has become increasingly executional. Probably as a result of greater competitive →

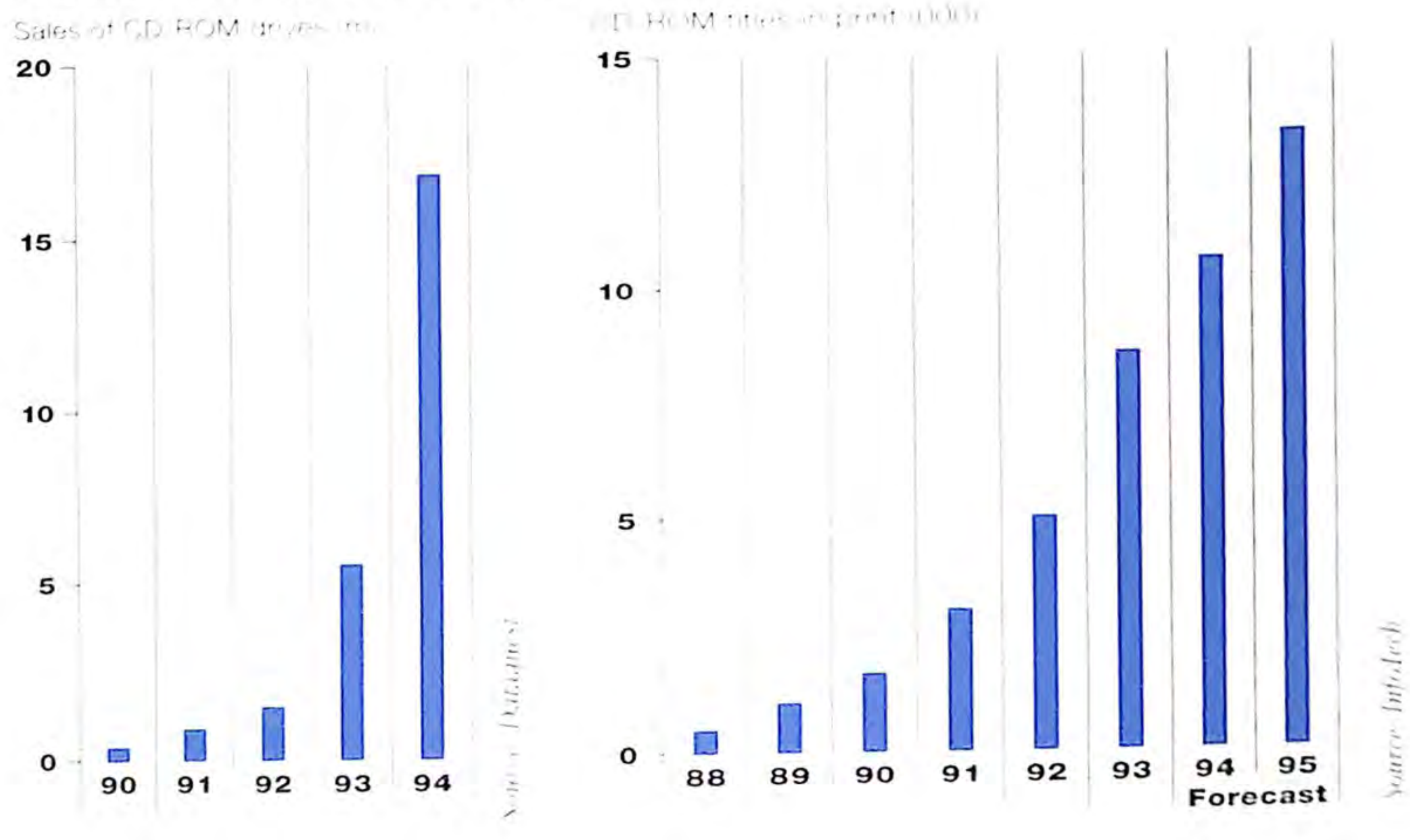
Change in US television share



UK TV ownership 1994 (%)



Worldwide growth in CD-ROM



Number of business registrations on the Internet

	1990	1991	1992	1993	1994
[illegible]			[illegible]	[illegible]	[illegible]
[illegible]				[illegible]	[illegible]
[illegible]					[illegible]
[illegible]					[illegible]

pressure, clients have been forcing their marketing advisers in advertising, market research, public relations and specialist communications to develop tactical rather than strategic responses to problems. In some markets, creative hip-shooting has been regarded as being more effective than well thought-through strategic brand development.

In recent years management consultancies, in particular, have started to focus on the marketing function of their clients. Historically there seems to have been an artificial distinction between business strategy and marketing strategy, perhaps encouraged by professors at business schools. All business strategies should start with the consumer, and therefore are marketing-orientated. Possibly having exhausted their opportunities in other parts of the organisation, consultancies are starting to examine the structure of marketing departments and the allocation of budgets. McKinsey, Bain, Boston Consulting Group, The Monitor Company and even Andersen Consulting, are all turning their attention this way and recruiting staff more suited to advising on this function of their clients.

Consequently, marketing services companies are in danger of being pushed further down the value chain despite the enormous amount of knowledge and experience which they possess. A number of alternative responses are available to them. They could acquire a consulting capability. However, this approach seems to have been compromised by previous unsuccessful and unfocussed efforts. They could build a stronger internal strategic marketing capability, either at a holding company level or operating company level, by recruiting or training people with greater strategic skills. This would certainly fit with the greater co-ordination required by clients and their need for broader thinking. They could also use parts of their organisation that are more strategic in terms of the work they do, as the base for developing strategic marketing thinking. For example, corporate identity consulting carried out by our companies involves a detailed understanding of the client's strategy, structure and top management thinking and could be used to even greater effect in conjunction with the work carried out by our advertising agencies. Finally, they could form strategic alliances with consulting partners who perhaps lack access to the marketing function of clients or who are regarded by clients as lacking marketing know-how.

Unless marketing services companies pursue these alternatives there is a danger they will be pushed further down the value chain and become increasingly commodity-like, with margins under greater pressure as a result.

Remuneration and conflict policies

Fee-based remuneration has become more important over the past 10 years. In WPP's case, fees account for approximately 30% of revenues. However, over the last two or three years major re-negotiations of commission arrangements with clients such as Kraft Foods, Nestlé and Unilever have resulted in commission arrangements remaining in place. Commission levels in all these arrangements start at approximately 13% including media buying which is costed at 1½% to 2%. In addition there are success fees of additional commission up to levels of as much as 17%, if performance against pre-agreed objectives such as sales, profitability and market share justifies it. The willingness to remain with the commission system is probably a reflection of the growing importance that clients attach to product and service differentiation, the relatively restricted supply of multinational agencies and the simplicity of the arrangement.

There are signs of a weakening of the rigidity of conflict policies as clients come to terms with the otherwise impossible constraints which globalisation, mass product launches and joint ventures would bring. Mars, for example, has historically been opposed to treating the operating companies of a holding company as separate for conflict purposes. However, in their recent review they relaxed that requirement to enable them to choose a new agency. Procter & Gamble has also loosened its conflict restrictions.

Alone amongst professional services industries, advertising agencies find themselves unable to work for more than one client per category. Agencies, you could argue, are their own worst enemy in this regard. No other industry of similar size has such extensive press column inches devoted to it. No other industry has two daily press columns in the leading US newspapers. Few other industries gossip so exhaustively and exhaustingly. Perhaps the industry should take its lead from consulting, where McKinsey, for instance, never publishes its client list and seems more intent on keeping its name out of the paper rather than in.

Market research becoming increasingly global

Despite the recession, the market research industry has continued to grow at high single digit rates. This growth in the face of the economic cycle reflects a number of factors. Increasing worldwide expansion has stimulated the demand for market research, and the importance of multinational research networks has increased as a result. As differentiation has become more difficult, intuitive decision-making has become more difficult. Whether to protect themselves or not, managers are relying ever more on market research to justify and improve their decision making. Also, new clients are emerging as utilities, government bodies and service industries begin to market themselves and research the views of their customers and employees. →

On the supply side, many client companies busy re-engineering their processes are reducing their internal commitment to market research and becoming more dependent on outside suppliers. As a result there is significant interest in co-ordinating market research activities and concentrating supplier relationships in fewer hands, so that stronger partnerships can be developed. In the past few months two of the Group's five largest clients have started to examine how they can better co-ordinate and concentrate their market research activities. As there are few market research networks with a real worldwide capability (and WPP accounts for three of them) this represents a significant opportunity.

A resurgence in leading brands

Attitudes to branding have been volatile. In the high growth, inflationary 1980s, brands were highly prized, and significant acquisition prices paid, particularly in the packaged goods industries. In the slower growth, lower inflationary 1990s, less significance has been placed on branding, and critical questions have been raised, not least about pricing. Why the difference in attitude over a relatively short period of time?

To some extent, packaged goods manufacturers brought it on themselves. In the high growth, high inflation 1980s, heavy price increases were not so noticeable to the consumer, but by the end of the 1980s some packaged goods brands were as much as 50% more expensive than their own-label or store brand competition.

At the same time, retailers were strengthening their domination of distribution, developing own-label alternatives to an unprecedented degree and establishing brands at different quality and price levels. In addition they began to spend heavily on advertising and promotion, becoming the highest spending brands in some markets. By the early 1990s, therefore, the consumer was faced with retailer brand alternatives at lower prices, at the same time that the recession was biting. This situation was further exacerbated by line and product extensions that had been made to the leading brands, again in the 1980s. Effectively manufacturer brands had been stretched too far and advertising and promotional spending was being extended over too many products.

In effect many major brands had become relatively too expensive. Over the past couple of years some drastic changes have been made to these price structures. Whilst one can argue over the speed of such changes, the direction was certainly correct. Interestingly, however, these price adjustments have been accompanied by a re-affirmation of the value of brands, an increased concentration on core brands and a whittling down of peripheral extensions. Increased focus and reduction of relative price differences have brought enhanced marketing spending, particularly in media advertising as a means of brand differentiation.

The pendulum seems to be swinging once again to valuing brands more highly. ■

Financial report

Letter to share owners

Summary of 1994 results

Your Company grew strongly in 1993 – and 1994 built steadily on that success. On a constant currency and like-for-like basis, revenues at £1.427 billion were up 5%; operating profit grew from £95.0 million to £112.1 million, up 18%; and operating margins improved from 6.7% in 1993 to 7.9%; beating our financial objective of increasing operating margins by 1% a year up to a level of 10% by 1996.

Operating margins before short and long-term incentive and severance payments rose to 11.2% from 9.5%, and before severance payments rose to 8.7% from 7.6%. Operating costs fell by 2.0%. The Group's staff cost to revenue ratio fell to 51.6% from 53.1%. 1995 will be the first year of significant payments to some of our key people under the long-term incentive plans established in 1992, which are based on the worldwide performance of the operating companies in which they work and are paid in part with restricted ordinary shares.

Net interest payable fell to £26.8 million from £29.7 million, reflecting improved profitability and cash flow, disposals and the full year impact of the successful rights issue in March 1993, partly counterbalanced by an increase in US interest rates. Whilst interest rates will be higher in 1995, a significant proportion of the Group's floating rate debt is protected by interest rate swaps and caps at US dollar LIBOR of 6% or below (excluding margin and hedging costs).

Pre-tax profits rose 57% to £85.3 million from £54.4 million and pre-tax margins rose to 6.0% from 3.8%, which reflected improved profitability and liquidity.

Basic earnings per share rose 61% to 7.9p from 4.9p, and fully diluted earnings per share rose 91% to 6.5p from 3.4p. Following the conversion of the majority of the Cumulative Convertible Redeemable Preference shares in August 1994 and the subsequent successful placing of ordinary shares in September 1994, there will be little difference in the future between the basic and fully diluted earnings per share figures, under the existing capital structure.

The Board recommends an increase in the final dividend to 0.75p net per share, making a total of 1.135p net per share for 1994, a 13.5% increase over 1993.

Over the last two years our results have been reflected in share price appreciation with the company being the best performing share among major quoted advertising and marketing services groups in both 1993 and 1994.

Competitive performance

Continued progress has been made over the last three years during which pre-tax profits have increased over ten times from £8 million in 1992, to £54 million in 1993 and to £85 million in 1994. Over the same period operating margins have increased by almost 40% from 5.6% to 7.9%, and average net debt has fallen by 39% from £437 million in 1992, to £361 million in 1993, to £268 million in 1994.

However, there is still a significant profit opportunity in matching operating margins of the best performing competition. Best-performing competitive *holding companies* like The Interpublic Group of Companies, Inc. and Omnicom Group Inc. report 12% to 14% operating margins, whilst their best performing *individual agencies* such as McCann-Erickson Worldwide and BBDO Worldwide are estimated to achieve operating margins of 16% to 17%. This compares to a WPP holding company margin of just under 8%, and individual agency margins at Ogilvy & Mather Worldwide and J. Walter Thompson Company of 10% to 13%. Competitor public relations companies such as Shandwick plc show operating margins of over 10% and there is clearly an opportunity to turn around the loss making parts of our public relations activities which we have targeted to break even in 1995.

Comparative benchmarking data on our market research and specialist communications operations are less easy to obtain and, as a result, we have commissioned a study by Arthur Andersen to work with our competitors in these and our other sectors to generate reliable and consistent comparisons. However, there are grounds to believe our market research and specialist communications businesses are reasonably competitive.

Achievement of 'best practice' competitive operating margins in our advertising and public relations businesses alone at current revenue levels would generate another £30 million to £40 million of operating profit.

Property costs

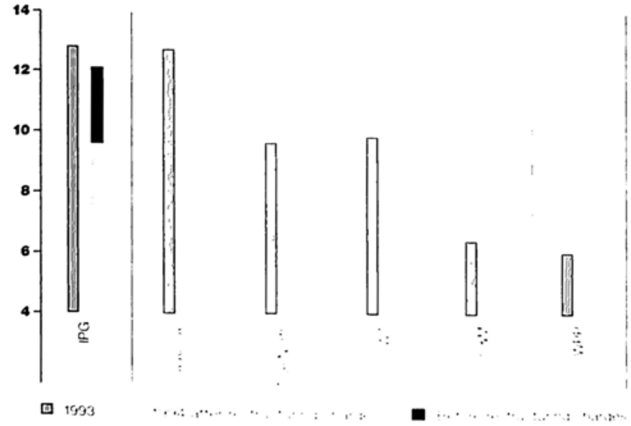
Surplus property costs also add to the task of achieving the same level of operating performance as our best performing competitors. Substantial progress has been made over the last three years in reducing the level of surplus property. Over 285,000 sq ft with a cash cost of £7.2 million ($11.0 million) per annum has been sublet or absorbed. However, there is still 370,000 sq ft, with a cash cost of £7.4 million ($11.4 million) per annum, surplus to current requirements. Property initiatives planned for 1995 and 1996 will significantly reduce this surplus as major leases come up for renewal particularly in the United States.

Executive compensation

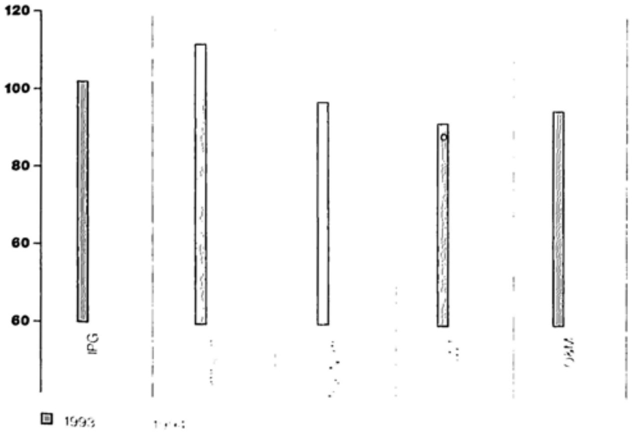
There has been much comment in the United Kingdom recently on the matter of executive compensation. In order to provide as much detail as possible on the Group's executive compensation policies, pages 67 to 71 of this report contain additional information which is considerably in excess of recommended disclosure and statutory requirements in the United Kingdom. These disclosures are similar

Key competitive ratios

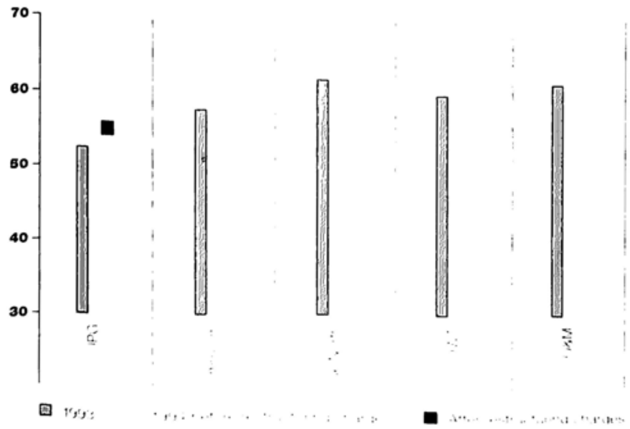
Operating margins (%)



Revenue per head ($000)



Staff cost to revenue ratio (%)



to those made by our major US-based competitors in their proxy material.

1995 outlook

Our budgeted revenue growth for 1994 was 1.2%, and compares with an actual outcome of over 5%. Applying the same conservative approach for 1995, we budgeted a revenue increase of almost 3.5%. Results for the first four months show a like-for-like increase of over 8%.

There are still some economic uncertainties, particularly in the United States and the United Kingdom, and in a low inflationary environment like-for-like revenue gains are likely to be modest. As a result, the Company will continue to concentrate on increasing its professional and financial efficiency. Both short-term and long-term incentive plans are conditional on improved absolute levels of operating profit, of operating margins, of staff-cost-to-revenue ratios, of incremental revenue conversion and on Group co-operation.

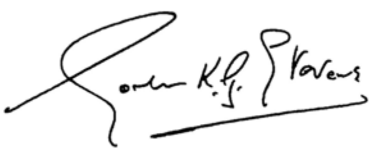
While financial reporting, tax and treasury, control, acquisitions and disposals will remain central holding company functions, it is increasingly clear that there are many professional opportunities for the Group that will benefit both clients and member companies.

Across human resources, property, information technology and procurement, increasing value is being obtained through centralised and co-ordinated Group initiatives. And in practice areas, cross-company client benefits have already been realised in media buying, healthcare, privatisation, new technology and emerging markets.

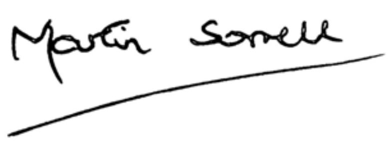
1995 marks WPP's tenth anniversary. We can look back on five years of rapid growth through acquisition and five years of consolidation.

Looking to the future, we seem well-placed. We have people of great skill and experience. We have an enviable client base. And we have an increasing ability to put the size and the resources of the Group to productive use.

There seems no good reason why our tenth birthday year should not also be a year of record trading.



Gordon Stevens
Chairman



Martin Sorrell
Group chief executive

Operating and financial review

In 1994, the worldwide marketing services industry continued to improve as in 1993 and 1992. Further strength in the United States was reinforced by increased activity in Europe. The United Kingdom ranked as an emerging market, at least for 1994, and Continental Europe, particularly France, Germany and Italy, but not Spain, hardened. Growth in the emerging markets of Asia Pacific and Latin America continued despite difficulties in Venezuela and Mexico. In addition, political progress has improved the economic prospects in Africa and the Middle East. Prospects in Central and Eastern Europe remained less certain.

There were also some signs of a shift in client spending from so called below-the-line activities such as trade promotion to above-the-line media advertising. This may well be due to the increase in the level of economic activity in the mature markets, and increasing focus by clients on brand differentiation and revenue growth as cost reductions become more difficult to achieve.

Media advertising

Revenues at J. Walter Thompson Company rose by 6.1% and operating costs by 4.2%. Operating margins were 13.4% and the staff costs to revenue ratio fell to 58.5% from 60.0%. J. Walter Thompson Company generated net new billings of over £222 million ($340 million).

Ogilvy & Mather Worldwide's revenues rose by 4.4% and operating costs by 1.8%. Operating margins were 10.2% and the staff costs to revenue ratio fell to 58.9% from 61.0%. Ogilvy & Mather Worldwide generated net new billings of over £326 million ($499 million).

Despite a fall in Conquest's revenues, operating costs were reduced by a proportionately greater amount, resulting in a significant improvement in operating margins.

Market research

The Group's market research businesses continued their strong growth with gross margins rising over 6%. Operating costs rose by approximately 6% and as a result margins were similar to the previous year. Strong performances were recorded across the board by Research International and Millward Brown. MRB's units in the United Kingdom and Japan performed well, but operations in the United States and Australia did not meet expectations.

Public relations

The Group's public relations activities have still not seen a significant recovery. Hill and Knowlton's revenues fell by over 5%, and operating costs by a similar percentage. Operating losses were reduced by 18%. Most of this improvement occurred in the United States, with a significant proportion due to a reduction in property costs. Under its new management, which has significantly reduced corporate and United States management and staff costs, an even more significant improvement is expected in 1995. Hill and Knowlton's objective is to break even this year.

Ogilvy Adams & Rinehart's revenues fell by over 2% and operating costs by over 3%. As a result, profitability before exceptional items improved significantly over last year.

Specialist communications

In previous years we have grouped our strategic marketing services, non-media advertising and specialist communications business sectors separately. With the appointment of John Zweig as chief executive officer of our specialist communications division, which includes many of these business units, the three business sectors will in future be reported as one. John was previously chief operating officer of Ferguson Communications, our very successful healthcare communications group and one of the biggest of our specialist communications companies.

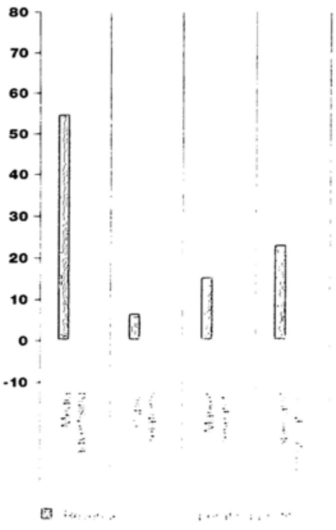
Specialist communications revenues rose by 5%. However, gross margins declined marginally and operating costs rose by almost 1%. As a result, overall operating margins declined. Several of our companies in this sector performed particularly well, including in the United States: SBG Partners, Ferguson Communications, Mendoza Dillon & Asociados, Pace Communications, RTC Direct, and in the United Kingdom: MetroVideo, Mando Marketing, Coley Porter Bell, SampsonTyrrell, BDG/McColl, Scott Stern and Promotional Campaigns UK.

The Group's manufacturing division continued to improve its performance with operating profits rising to £0.4 million from £0.3 million.

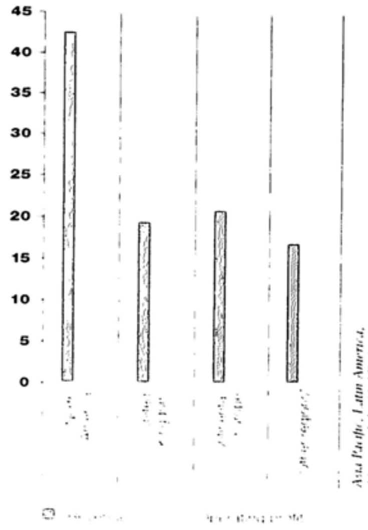
Client relationships

The Group services over 300 of the Fortune 500 companies and approximately 330 national or multinational clients in

Revenue and operating profit by sector (%)



Revenue and operating profit by geography (%)



three or more sectors. More than 60 clients are serviced by all four sectors. The Group also works with well over 100 clients in six or more countries.

These statistics reflect the increasing opportunities for developing client relationships between sectors nationally, internationally and by function. The Group estimates that approximately 20% of new assignments in the year were generated through the joint development of opportunities by two or more Group companies.

Indebtedness

At 31 December 1994, the Group was almost cash positive with net debt of £38 million compared with £84 million at 31 December 1993 (1993: £69 million on the basis of 1994 year end exchange rates). This was primarily due to the traditionally strong fourth quarter and management efforts to improve liquidity at year end.

Net debt averaged £268 million in 1994 against £361 million in 1993 (1993: £354 million at 1994 exchange rates). Liquidity in the second half of the year was better than anticipated with average net debt at £256 million compared with £280 million in the first half. On a pro-forma basis, taking into account the full year impact of the £85 million ($123 million) rights issue completed in April 1993, average net debt was £268 million in 1994 versus £339 million in 1993 (1993: £332 million at 1994 exchange rates). These net debt figures compare with a current equity market capitalisation of approximately £800 million, giving a total enterprise value of approximately £1.1 billion.

In 1995 up to 9 May, the last date for which data was available prior to the printing of this report, net debt averaged £215 million versus £276 million last year (1994: £258 million at 1995 exchange rates).

Given this improving liquidity, the Company is examining ways of renegotiating its existing banking arrangements earlier than the maturity date of June 1997. Existing facilities of $800 million cost 2% over US dollar LIBOR and a reduction of 1% would result in savings of between £3 million and £4 million per annum.

In 1994, negative share owners' funds of £110 million compared with £162 million in 1993 (1993: £153 million on the basis of 1994 year end exchange rates).

Cash flow

Overall, cash flow was better than anticipated as a result of improved profitability and management of working capital. In 1994, earnings before interest and taxes were £112 million, capital expenditure £30 million, depreciation £27 million, cash earnout payments £17 million, tax paid £22 million and net interest paid £30 million. Free cash flow available for debt repayment, acquisitions, excess property payments and dividends was therefore £40 million.

1995 marks the final year of significant earnout payments. It is anticipated that a total of £19 million will be paid of which £15 million will be in cash and £4 million in the Company's shares.

Assuming modest revenue growth and that operating margins will grow in line with the Company's objectives of 1% per annum in 1995 and 1996, 1995 will see a further increase in free cash flow, while 1996 and beyond should generate free cash flow after tax available for debt repayments and dividend payments of over $50 million. This would mean that the current average level of indebtedness would be reduced to zero in approximately five to six years.

Treasury policy and activities

A significant proportion of the Group's revenues, operating profits and cash flows (approximately 80% to 90%) are in currencies other than sterling. As there are few instances of significant cross border trading, exposures to foreign exchange fluctuations are limited. When significant exposures do arise these are covered by short term forward contracts. No speculative foreign exchange trading is undertaken.

The reported earnings of the Group are affected by the value of sterling relative to overseas currencies, the most significant being the US dollar in North America, the Dutch guilder, French franc, German mark and Spanish peseta in Europe, and the Australian dollar, Hong Kong dollar, Japanese yen, Taiwan dollar and Thai baht in Asia Pacific. The Group does not hedge reported earnings, although some natural hedging is provided by having a broad portfolio of over 70 reporting currencies. In addition, the Group's predominantly dollar denominated debt is serviced primarily by dollar earnings in the US. The Group analyses and reports its performance on a constant currency basis wherever relevant.

No hedging is undertaken in relation to the accounting translation of overseas balance sheets. This results in a fluctuation in the sterling value of share owners' funds due to movements in exchange rates.

The Group's interest rate management policy is to ensure that a significant proportion of its borrowings either are on a fixed rate basis or are hedged against significant increases in medium term interest rates. The majority of the Group's floating rate borrowings are hedged at US dollar LIBOR of 6% and below (excluding margin and hedging costs), with maturities extending into January 1999.

Financial resources and going concern

Every year the Group, and each operating company, prepares a three year strategic plan which includes a financial target. In addition, the Group also prepares an annual budget, compiled using detailed budgeted information from each of its operating units.

After reviewing the 1995 budget, the directors believe that the Group and Company have adequate resources for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Board of Directors

Gordon Stevens

Chairman (non-executive)

Gordon Stevens became Chairman of WPP in August 1992. Previously he had a distinguished international marketing and management career with Unilever, ultimately as chairman of the company's North American operations and for 12 years he served on the main Board. He became chairman of Scholl PLC, the international personal products company, in 1990.

Martin Sorrell

Group chief executive

Martin Sorrell joined WPP in 1986 as a director, becoming Group chief executive in the same year. He is also a non-executive director of Storehouse plc.

e-mail: msorrell@wpp.com

Robert Lerwill

Group finance director

Robert Lerwill joined WPP in 1986 as Group finance director. Previously he worked with Arthur Andersen for 13 years servicing UK and international public company clients.

e-mail: rlerwill@wpp.com

Brian Brooks

Director, human resources

Brian Brooks joined WPP in September 1992. Previously he was a partner at Towers Perrin in New York and London, specialising in human resources and employee compensation.

e-mail: bbrooks@wpp.com

Gordon Sampson

Chief executive, manufacturing

Gordon Sampson founded the original Wire & Plastic Products company in 1958, manufacturing goods for consumer markets. He remains chief executive of the manufacturing division and, since 1989, has been deputy chairman of WPP.

Jeremy Bullmore

Non-executive director

Jeremy Bullmore was appointed a director in 1988 after 33 years at J. Walter Thompson, London, the last 11 as chairman. He was chairman of the Advertising Association from 1981 to 1987 and has written and lectured extensively on marketing and advertising. He is also a non-executive director of the Guardian Media Group plc.

John Jackson

Non-executive director

John Jackson was appointed a director in September 1993. He is chairman of Ladbroke Group plc and a number of other public companies. He has extensive experience of a broad range of businesses, including television broadcasting, high technology industries, retailing, publishing, printing, biotechnology, electronics and pharmaceuticals.

Paul Judge

Non-executive director

Paul Judge was appointed a director in 1991. He spent 12 years with Cadbury Schweppes, ultimately as group planning director, before leading a management buy-out in 1985 to form Premier Brands. He is a benefactor of the Judge Institute of Management Studies at Cambridge University, and director general of the Conservative Party.

Stanley Morten

Non-executive director

Stanley Morten was appointed a director in 1991. Until recently he was managing director of the equity division of Wertheim Schroder & Co., Inc in New York, with responsibility for investment research, sales, trading, syndication and international operations.

John Quelch

Non-executive director

John Quelch was appointed a director in 1987. He is the Sebastian S. Kresge Professor of Marketing at Harvard University Graduate School of Business Administration. A prolific writer on marketing and public policy issues, he is the author of 12 books on marketing management. He is also a non-executive director of Reebok International Ltd and US Office Products Company.

Holding company senior executives

D F Calow *(Company secretary)*
D Barker
R J C Beanland
M W Capes
R C Clementson
J Drefs
D G Errington
A H Hall
W F Hickson
M E Howe
F McEwan
R Meehan
J Murphy
S Neish
T O Neuman
A Newman
D A S Nicoll
M Read
P W G Richardson
D M Roberts
M L Rooker
E Salama
M Sampson
M C Scott
A G Stimpson
M D Troiano
P E Williams
J F Zweig

Advisers to the Company

Merchant bankers
Goldman Sachs International Ltd
Peterborough Court, 133 Fleet Street, London, EC4A 2BB
Merrill Lynch Europe Ltd
Ropemaker Place, 29 Ropemaker Street, London, EC2Y 9LY
Samuel Montagu & Co. Limited
10 Lower Thames Street, London, EC3R 6AE
Wasserstein Perella & Co., Inc.
27th Floor, 31 West 52 Street, New York, NY 10019

Stockbrokers
Panmure Gordon & Co. Ltd
New Broad Street House, 35 New Broad Street, London, EC2M 1NH

Legal advisers
Allen & Overy
One New Change, London, EC4M 9QQ
Clifford Chance
200 Aldersgate Street, London, EC1A 4JJ
Davis & Gilbert
1740 Broadway, New York, NY 10019
Edge & Ellison
18/19 Southampton Place, London, WC1A 2AJ
Fried, Frank, Harris, Schriver & Jacobson
1 New York Plaza, New York, NY 10004
MacFarlanes
10 Norwich Street, London, EC4A 1BD

Auditors
Arthur Andersen
1 Surrey Street, London, WC2R 2PS
Coopers & Lybrand
32 rue Guersant, 75833 Paris Cedex, France

Executive remuneration consultants
Towers Perrin
245 Park Avenue, New York, NY 10167

Property advisers
James Andrew Badger Ltd
11 Waterloo Place, London, SW1Y 4AU
Knight Frank & Rutley
32 Coleman Street, London, EC2R 5AA

Corporate governance and directors' responsibilities

Corporate governance

During 1994 the Company has continued to adhere to all the recommendations contained in the Cadbury Committee's code of best practice. The auditors' report on this statement appears on page 73.

Directors' operational role and responsibilities

The Board of Directors is responsible for approving Group policy and strategy, meeting at regular intervals to discuss these matters and to review the Group's financial and operational performance. Responsibility for the development and implementation of Group policy and strategy, and for day-to-day management issues, is delegated by the full Board to the executive directors.

Non-executive directors of the Company are drawn from a diverse range of backgrounds in order to provide a wide range of views in respect of the business, financial and strategic activities of the Group. Although certain non-executive directors hold shares in the Company, in order to enhance their independence they do not participate in the Company's share option or other incentive schemes. They take an active role on Board committees, which comprise:

Audit committee

The Audit committee meets at least three times a year to monitor accounting issues, the Group's internal control systems and audit related matters. The committee comprises the following non-executive directors: Messrs J A Quelch (chairman), J J D Bullmore, P R Judge and S W Morten.

Compensation committee

The Compensation committee reviews the remuneration and terms of employment of executive directors and senior executives of the Company, and directors and senior executives in subsidiary companies. Further details are provided on page 67. The committee comprises the following non-executive directors: Messrs S W Morten (chairman), G K G Stevens and P R Judge.

Nomination committee

The Nomination committee considers appointments to the Board of Directors and makes recommendations in this respect to the Board. The committee comprises Messrs G K G Stevens (chairman), B J Brooks, P R Judge, S W Morten and M S Sorrell.

Internal financial control

The Board of Directors has overall responsibility for the system of internal financial control throughout the Group. In the context of the size, complexity and diverse nature of this system, this can only provide reasonable but not absolute assurance against material mis-statement or loss.

The key elements of the system of internal financial control are set out below:

Financial reporting

The Group has a comprehensive system for reporting financial results to the Board. Each operating unit prepares a three year strategic plan annually which incorporates financial objectives. These are reviewed by the Group's management and agreed with the chief executives of each operating unit. In addition, towards the end of each financial year, operating units prepare detailed budgets for the following year. The Group's budget is reviewed by the Board before being adopted formally. Operating unit results are reported monthly and compared to budget and prior year, with full year forecasts prepared quarterly throughout the year. The Company reports to share owners twice a year.

Quality and integrity of personnel

Quality and integrity of personnel is regarded as vital to the maintenance of the Group's system of internal financial control. Guidance on identified key policies is provided in the WPP Policy Book, which includes a Code of Business Conduct setting out the principal obligations of directors and employees.

Operating unit controls

Procedures have been developed whereby operating units complete Self-Certification Questionnaires confirming compliance with key financial controls and procedures. These questionnaires are reviewed by the internal auditors and results reported to the Audit committe

Internal financial control (continued)

Review of key risk areas

The Company assesses the risks facing the business on an ongoing basis and has identified a number of key areas which are subject to regular reporting to the Board. These include such areas as operational performance, treasury matters including management of working capital, compensation of key executives and legal matters.

Monitoring of the system of internal control

Monitoring the effectiveness of the system of internal financial control is undertaken on an ongoing basis by the Audit committee, which receives regular reports from the director of internal audit and, where relevant, from external auditors.

Responsibilities in respect of the preparation of financial statements

The directors are required by company law to prepare financial statements which give a true and fair view of the state of affairs of the Company and Group at the end of each financial year and of the profit or loss of the Group for that year. The financial statements must be prepared in compliance with the required formats and disclosures of the Companies Act 1985 and with applicable accounting standards. In addition, the directors are required to:

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

The directors confirm that the financial statements comply with the above requirements. The directors are also responsible for maintaining adequate accounting records to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985, for safeguarding the assets of the Group, and therefore for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' remuneration and interests

Directors' remuneration

The compensation of all executive directors is determined by the Compensation committee of the Board which is comprised wholly of non-executive directors. The committee is advised by independent executive remuneration consultants.

The components of executive directors' remuneration and the basis on which these are established are described on pages 67 to 69.

Remuneration of the directors was as follows:	Location	Salary and fees £000	Salary/fee increase %	Short-term incentive plans £000	Pension contributions £000	Taxable benefits £000	**1994 Total £000**	1993 Total £000
Chairman:								
G K Stevens	UK	175	–	–	–	–	**175**	175
Executive directors:								
M S Sorrell	UK	639	2	575	–	11	**1,225**	956
R E Lerwill	UK	225	–	101	85	16	**427**	404
B J Brooks	USA	163	–	81	17	2	**263**	252
G C Sampson	UK	65	3	10	–	5	**80**	67
Non-executive directors:								
J J D Bullmore	UK	78	–	–	–	17	**95**	93
J Jackson	UK	20	–	–	–	–	**20**	5
P R Judge	UK	20	–	–	–	–	**20**	20
S W Morten	USA	23	–	–	–	–	**23**	24
J A Quelch	USA	65	–	–	–	–	**65**	54
S H M King (retired 15 April 1993)	UK	–	–	–	–	–	**–**	24
Total remuneration		1,473	–	767	102	51	**2,393**	2,074

Amounts included in short-term incentive plans represent bonuses in respect of 1994 performance paid in 1995.

In addition, amounts have been expensed in 1994 to meet the Company's liability for additional fees, salary and pension contribution of £145,000 due to JMS Financial Services Limited ("JMS") or Mr M S Sorrell under the proposed new contractual arrangements, details of which are referred to on page 66.

In 1994, and in previous years, JMS discharged all relevant national insurance and pension costs attributable to the provision of the services of Mr M S Sorrell.

Share options

Outstanding options granted to the directors are as follows:	At 1 Jan 1994	Granted in 1994	At 31 Dec 1994	Granted in 1995	At 5 May 1995	Exercise dates		Exercise price
	Number	Number	Number	Number	Number	Commencement	Expiry	Per share
B J Brooks	626,214	–	626,214	–	626,214	Sep 1995	Sep 2002	29.5p
	229,331	–	229,331	–	229,331	Sep 1996	Sep 2003	102.0p
	–	180,717	180,717	–	180,717	Sep 1997	Sep 2004	119.0p
R E Lerwill	58,674	–	58,674	–	58,674	Apr 1989	Apr 1996	307.0p
	16,548	–	16,548	–	16,548	Apr 1990	Apr 1997	647.0p
	11,632	–	11,632	–	11,632	Sep 1990	Sep 1997	589.0p
	58,777	–	58,777	–	58,777	Sep 1991	Sep 1998	429.0p
	535,162	–	535,162	–	535,162	Apr 1996	Apr 2003	52.5p
	321,981	–	321,981	–	321,981	Apr 1996	Apr 2000	52.5p
	–	195,652	195,652	–	195,652	Apr 1997	Apr 2004	115.0p
	–	–	–	166,667	166,667	Apr 1998	Apr 2005	108.0p
	–	–	–	41,667	41,667	Apr 1998	Apr 2002	108.0p
G C Sampson	–	–	–	4,313	4,313	Apr 1998	Apr 2005	108.0p
M S Sorrell	190,476	–	190,476	–	190,476	Apr 1996	Apr 2003	52.5p

No share options were exercised during the year or in the period to 5 May 1995. The closing share price at 31 December 1994 was 109p, and the share price during the year ranged between 89p and 129p.

Share options in existence prior to 8 April 1993, and their exercise prices, have been adjusted to reflect the impact of the rights issue which occurred on that date. Share options are granted either under the WPP Executive Share Option Scheme or under one of the WPP Group plc ESOP Executive Share Option Schemes in which directors and other senior executives participate. All of these schemes grant options at the market price at the time of grant.

Rights to additional fees in the form of phantom options have been agreed to be granted to JMS in relation to 1993 in respect of 2,196,190 ordinary shares at an exercise price of 52.5p per share, exercisable between April 1996 and April 2003, in relation to 1994 in respect of 577,391 ordinary shares at an exercise price of 115p per share, exercisable between April 1997 and April 2004, and in relation to 1995 in respect of 2,721,296 ordinary shares at an exercise price of 108p per share, exercisable between March 1998 and March 2005.

The Chairman and non-executive directors of the Company are not eligible to be granted options or rights over shares under any of the Company's share incentive schemes.

Directors' remuneration and interests

Directors' interests

Ordinary shares

Directors' interests in the Company's share capital, all of which were beneficial, were as follows:	At 1 January 1994	At 31 December 1994	At 5 May 1995
B J Brooks	10,000	10,000	10,000
J J D Bullmore	20,065	20,065	20,065
R E Lerwill	73,738	73,738	73,738
J A Quelch	10,000	10,000	10,000
G C Sampson	500,000	550,000	550,000
M S Sorrell	1,310,425	2,439,730	2,439,730
G K G Stevens	18,000	18,000	18,000

Subscription warrants

Subscription warrants held by directors, all of which were beneficial, were as follows:	At 1 January 1994	At 31 December 1994	At 5 May 1995
J J D Bullmore	375	375	375
R E Lerwill	7,509	7,509	7,509
M S Sorrell	116,285	116,285	116,285

Each subscription warrant carries the right to subscribe for one ordinary share of the Company on 30 June in each of the years 1995 and 1996 at a subscription price of £10.00 per share.

Service contracts

The services of the Group chief executive, Mr M S Sorrell, are currently secured under an agreement dated 21 April 1990 made with JMS. The agreement includes a rolling five year notice period, with all remuneration paid to JMS. It was announced on 2 September 1994 that the Company, JMS and Mr Sorrell had reached agreement in principle concerning new contractual arrangements on the basis of a fixed three year term, renewable annually. The new arrangements are subject to obtaining shareholder approval for the implementation of a Capital Investment Plan for the benefit of Mr Sorrell at an Extraordinary General Meeting to be convened immediately following the Annual General Meeting on 26 June 1995. The annual basic fee and salary to which JMS and Mr Sorrell are entitled under the new arrangements is approximately £750,000 (depending on the UK/US rate of exchange) together with annual pension contributions of approximately £325,000 (depending on the UK/US rate of exchange). In addition to the grant of phantom options referred to on page 65 and the Capital Investment Plan, JMS and Mr Sorrell will be entitled to participate in the Company's annual, long-term and other incentive plans available for the benefit of executive directors and senior employees in the Group.

Mr R E Lerwill is employed under a service contract with a rolling three year notice period, and Messrs B J Brooks and G K G Stevens are employed under contracts with rolling one year notice periods.

Under the Articles of Association of the Company, Messrs J J D Bullmore, P R Judge and J R Quelch retire by rotation and, being eligible, offer themselves for re-election.

Other interests

No director had any interest in a contract of significance with the Group during the year.

The Company has maintained normal indemnity insurance during the year for its directors and officers against liability when acting for the Company.

Provided below are details of the Group's remuneration policies for senior employees, together with a summary of the compensation of the Group's five most highly paid "executive officers", as defined for this purpose on page 69. Two of the executive officers are also executive directors of the Company. This information represents additional disclosure to that provided in "Directors' remuneration and interests" on pages 64 to 66.

The information is provided in a manner which is similar to the compensation disclosure of the Company's main US-based competitors. It is therefore intended that senior executive remuneration be compared with the Group's main competitors for executive talent. In addition, the information will facilitate comparisons between senior executives within the Group. Consequently, figures have been reported in US dollars and presented in a similar format to the proxy disclosure on executive remuneration filed by US companies.

The Compensation committee

The Compensation committee, which is comprised entirely of non-executive directors (currently Messrs S W Morten, P R Judge and G K G Stevens), is responsible for establishing overall remuneration policy for the Group, with specific reference to:

- base salary levels
- annual and long-term incentives
- Company share ownership
- pensions and other benefits
- competitive practices

The committee approves all remuneration and increases in remuneration for employees of the Group and its operating subsidiaries who are paid base salaries in excess of $150,000 per annum. In addition, the committee is responsible for approving all awards and payments under annual and long-term incentive programmes and any WPP share awards.

The Compensation committee determines the remuneration of the Group chief executive on the basis of a comparison with the remuneration of the chief executives of other comparable multinational, multi-agency marketing services holding companies. The committee's objectives are to provide competitive fixed remuneration, and incentive compensation opportunities – both short and long-term. Where performance is above the average level of the Group's major competitors, total remuneration levels should also be above average levels.

Executive compensation

The compensation programmes established for executives of the Group's operating companies and the holding company organisation are designed to provide competitive total remuneration opportunities which will attract, retain and motivate the best talent available in the marketing services industry. A significant portion of the total remuneration opportunity for all senior executives is variable and tied to the achievement of specific, quantifiable performance objectives, in order to align executive rewards with increasing the value of the Group to share owners.

The executive compensation programme is comprised of several complementary elements which are managed within established policies, reflecting the overall objectives described above.

Base salary

Base salary levels are established by reference to the median base salary for similar executive positions in directly comparable businesses. In the case of the holding company, this includes other multinational, multi-agency holding companies in the advertising and marketing services industry. For J. Walter Thompson Company and Ogilvy & Mather Worldwide, this is defined to include other major multinational advertising agencies based in the United States. For each of the other operating companies in the Group, a comparable definition of business competitors is used to establish competitive median salaries. Individual salary levels are set within a range of 15% above or below the competitive median, taking a number of relevant factors into account, including individual performance, level of experience and scope of responsibility.

Salary levels for executives are reviewed every 18, 24 or 36 months, depending on seniority. Salary adjustments are made on the advice of either the chief executive officer or the Compensation committee of the operating company. When reviewing the salaries of operating company chief executive officers or holding company executives, these recommendations are made by the Group chief executive and are reviewed by the WPP Group Compensation committee.

Executive remuneration

Annual incentive compensation

Annual incentive compensation is payable under formalised incentive plans established for each operating company and for executives of the holding company. Groupwide, there are approximately 1,000 participants in annual incentive plans, or 5% of all employees in the Group. In the case of the Group chief executive and other holding company executives, operating profit and operating cash flow are used to determine bonus, and the targets, which are agreed with the non-executive Compensation committee of the Board, apply to the Group as a whole. In the case of each operating company, the performance target for determining the overall level of annual bonuses is defined in terms of either operating profit or operating cash flow, and the targets are agreed with the Group chief executive each year.

Individual bonuses are payable in cash from the available bonus pools and are determined on the basis of individual performance, encompassing the Group's most important strategic and financial objectives. For the senior management of each operating company, these objectives include improvements in operating profit, operating margin and staff cost to revenue ratios, as well as revenue conversion targets and cooperation with other companies in the Group, where appropriate. In each case, the annual incentive compensation objectives relate solely to the employees' own operating company, division, client or functional responsibility. For holding company executives, annual incentive objectives are specific to their area of functional responsibility.

Long-term incentive compensation

Long-term incentives comprise a significant portion of the total remuneration of senior executives in each operating company and in the holding company. Groupwide, approximately 200 or 1% of all employees participate in a long-term incentive plan.

The long-term incentive programme for senior executives of the holding company, including the Group chief executive, includes annual grants of fair market value share options and annual grants of performance units. In the latter case, the value of each performance unit is equivalent to one ordinary share of WPP Group plc. The number of units which vest over each three year performance period is dependent on WPP Group's relative share price performance over that period, compared with a group of seven major publicly traded multinational marketing services companies. These companies are Asatsu, Cordiant plc, Grey Advertising, Inc., The Interpublic Group of Companies, Omnicom Group Inc., RSCG Eurocom and True North Communications Inc. No units will vest where performance is below the median level of this peer group of companies. Where WPP's performance is equal to the median, 25% of each executive's performance units will vest. A higher percentage of the units vest for share price performance above the median level, up to 100% where the Group's performance is equal to or better than the second highest ranking peer company. The first performance period runs from 1 January 1993 to 31 December 1995 and grants have also been made in 1994 (for the 1994-96 period) and in 1995 (for the 1995-97 period). Participation is limited to a small number of senior holding company executives, and the size of each contingent grant is defined as a percentage of base salary for each participant.

Senior executives of each operating company in the Group, including J. Walter Thompson Company and Ogilvy & Mather Worldwide, participate in long-term performance plans which provide rewards for the achievement of three year financial performance targets agreed each year with WPP. These plans are currently operating on a rolling three year basis over the 1993-95, 1994-96 and 1995-97 performance periods. In addition, an award became payable in March 1995 under the J. Walter Thompson and HLS long-term incentive plans for the 1992-94 performance period. The value of the payments made to executives for each performance period is based on the achievement of targeted improvements with respect to each of these key financial and operating criteria:

- average operating profit or operating cash flow
- average operating margin
- average ratio of staff costs to revenues.

The weighting associated with each of these measures varies according to the objectives of each business.

These awards are payable in a combination of cash and restricted WPP shares. The restrictions on the sale of the shares are lifted after one year for 50% of any shares awarded and after two years for the balance. Depending on the plan, the share portion represents 25 to 33% of the total long-term incentive payment. The Group plans to increase this proportion to 50% over time.

At the beginning of each three year performance period, all participants in operating company long-term incentive plans may also elect to receive a WPP share option grant, as a substitute for up to 25% of their total long-term incentive opportunity. To date, approximately 60% of all long-term incentive participants have elected to take a portion of their long-term incentive opportunity in share options.

In addition, a limited number of the most senior executives who participate in the operating company long-term performance plans also receive annual grants of WPP share options, through their membership in the "WPP Group 100 Club." This group of up to 100 key executives was established by the Group chief executive in 1994 to further a number of strategic aims of the Group. Among the most important of these is to encourage business co-operation across Group companies. All members of the 100 Club, including the chief executive officer of each operating company, receive an annual grant of fair market value WPP share options, all of which are exercisable three years from the grant date, if their operating company achieves its three year financial targets over the corresponding period. Over the next three years, the total value (number of shares times fair market value at grant) of these grants will range from one to three times base salary.

Retirement benefits

The form and level of company-sponsored retirement benefit arrangements vary significantly across the Group depending on historical operating company practice and local market considerations. The level of company-provided retirement benefits is considered by the Compensation committee in the context of overall decisions about remuneration levels for senior employees.

In the two markets where the Group employs the largest number of people – the United States and the United Kingdom – private pension practices have been moving toward greater use of defined contribution retirement benefit arrangements. The Group's pension policy is to provide competitive retirement benefits, wherever possible, on a defined contribution basis. At the present time, however, the Group still maintains three defined benefit plans in the US and four defined benefit plans in the UK. In each case, these pension plans are provided for the benefit of employees of specific operating companies, and in the case of the UK plans, are closed to new entrants.

Compensation of executive officers

The following table sets forth details of compensation of the Group chief executive and each of the other four most highly compensated executive officers of the Group as of 31 December 1994 (the "named executive officers"). As used in this statement, the "executive officers" of the Group are deemed to include any director of the Company, or an executive who currently serves as the chief executive officer of one of the Group's major operating companies.

This information covers compensation for services rendered in all capacities for the two years ended 31 December 1994. All compensation is reported in US dollars in order to facilitate comparisons with the Group's principal competitors for executive talent.

			Annual compensation			Long-term compensation		
Name and principal position		Year	Salary $000	Bonus (1) $000	Other annual compensation (2) $000	Share options, SARs and phantom shares (3) Number	Restricted shares (4) Number	All other compensation (5) $000
M Sorrell	Group chief executive	**1994**	**979**	**538**	**17**	**577,391**	-	-
	WPP Group	1993	959	–	15	2,386,666	–	-
C Beers	Chairman/Chief executive officer	**1994**	**1,000**	**475**	**114**	**199,580**	-	-
	Ogilvy & Mather Worldwide	1993	1,000	500	52	500,000	–	–
B Manning	Chairman/Chief executive officer	**1994**	**990**	-	**24**	-	-	**1,108** (6)
	J. Walter Thompson Company	1993	990	–	24	500,000	–	1,027 (6)
R Lerwill	Group finance director	**1994**	**345**	**121**	**23**	**195,652**	-	**131**
	WPP Group	1993	326	107	21	857,143	–	150
P Barnard	Chief executive officer	**1994**	**306**	**153**	**9**	**123,950**	-	**117** (7)
	Kantar Group	1993	249	153	9	100,000	–	181 (7)

Notes

1 Represents short term incentive awards paid in calendar year 1994 and 1993.

2 Includes the value of company cars, club memberships, executive health benefits and supplemental executive life insurance, as well as the economic imputed value of an interest free loan from the trustees of the WPP Group plc Share Purchase Scheme to Mr R Lerwill, and an interest free loan to Ms C Beers. In addition, the Company paid rental costs of $65,500 toward Ms C Beers' housing, covering a portion of the one-year period following her relocation to New York.

3 As used in this report, the term "phantom shares" (as used in the UK) and the term "free-standing SARs" (as used in the US) are interchangeable. Both refer to the right to receive the value of any increase in share price over a fixed term, and where the executive has the right to elect the date on which this value is fixed, within a specified time period. Both are analogous to a share option.

4 No restricted share awards were made in 1994. Restricted shares may be granted under each operating company long-term incentive plan.

5 Includes accruals during each calendar year under company funded defined contribution retirement plans for Messrs Manning and Lerwill. In addition, the Company funds defined benefit retirement arrangements for Ms C Beers, Mr B Manning and Mr P Barnard. The annual value of these defined benefit retirement plans is not included in this table.

6 Amounts of $1 million were accrued for Mr B Manning in each year (1993 and 1994) under an individual incentive compensation arrangement established in 1987.

7 An amount was accrued for Mr P Barnard under a Research International long-term incentive plan, which will be payable in the third financial year following the year in which it is earned. This amount may be adjusted (up or down) on the basis of operating company performance over the two years prior to payment.

8 For the purposes of the above table, sterling amounts have been translated into US dollars at the approximate average US dollar exchange rate for the year of $1.5323 to £1.

Executive remuneration

Share option, SAR and phantom share grants in 1994 (1)

	Options, SARs and phantom shares granted (no. of shares)	% of total options granted in 1994	Exercise price (pence per share)	Expiry date (2)	Potential realisable value at assumed annual rates of share price appreciation for option term (3) 0% $	5% $	10% $
M Sorrell	577,391	7.62%	115p	April 2004	–	637,010	1,619,067
C Beers	199,580	2.29%	119p	Sept 2004	–	226,304	581,051
B Manning	–	–	n/a	n/a	–	–	–
R Lerwill	195,652	2.25%	115p	April 2004	–	215,854	548,629
P Barnard	123,950	1.42%	119p	Sept. 2004	–	140,547	360,864

Notes

1 Share options, SARs (Stock Appreciation Rights) and phantom shares are granted to Mr M Sorrell and Mr R Lerwill under a holding company programme of annual grants over a three year period. The target grant over three years is equal to four times base salary for Mr R Lerwill and four times annual cash compensation (base salary and annual incentive bonus) for Mr M Sorrell.

Share options granted to Ms C Beers, Mr B Manning and Mr P Barnard are granted under the WPP 100 Club share option grant programme. Mr B Manning did not receive a grant in 1994, as he is entitled to other bonus compensation covering the same period of time, under his contractual arrangement.

2 All options are exercisable three years from the grant date and expire ten years from the grant date.

3 WPP shares are quoted in pounds sterling, and the potential realisable value has been translated into US dollars using an exchange rate of $1.5323 to £1.

Share option, SAR and phantom share exercises in last financial year and final year-end share option, SAR and phantom share values

	Shares acquired on exercise	Value realised	Number of shares underlying unexercised share options, SARs and phantom shares at year end: Exercisable	Unexercisable	Value of unexercised in-the-money share options, SARs and phantom shares at year end ($) (1): Exercisable	Unexercisable
M Sorrell	–	–	–	2,964,057	–	2,066,255
C Beers	–	–	–	699,580	–	432,875
B Manning	–	–	–	500,000	–	432,875
R Lerwill	–	–	145,631	1,052,795	–	742,071
P Barnard	–	–	–	240,087	–	99,557

Note

1 Value calculated by subtracting the exercise price from the fair market value of the Group's ordinary shares on 31 December 1994. This was 109.0p. The sterling value has been translated into US dollars using an exchange rate of $1.5323 to £1.

Long-term incentive plan awards in 1994

	Number of units or shares	Performance or other period until maturation or payout	Threshold	Target	Maximum
M Sorrell	386,420 (1)	1 January 1994 – 31 December 1996	96,605	n/a (1)	386,420
C Beers	4,000 (2)	1 January 1994 – 31 December 1996	$100,000	$400,000	$600,000
B Manning	n/a	n/a	n/a	n/a	n/a
R Lerwill	97,200 (1)	1 January 1994 – 31 December 1996	24,300	n/a (1)	97,200
P Barnard	n/a (3)	1 January 1994 – 31 December 1996	$117,000	$234,000	$351,000

Notes

1 Each unit is analogous to an ordinary share of WPP Group plc, granted under the WPP Performance Unit Plan for senior executives of the holding company. Units vest three years from the date of grant on the basis of share price performance relative to seven other major publicly traded advertising companies. The number of units which vest between the threshold and maximum performance levels is pro rated on the basis of performance relative to these levels.

2 Units granted under the Ogilvy & Mather Worldwide long-term incentive plan are valued on the basis of average operating cash flow and operating margin over a three year performance period, relative to targets established with WPP. The value of the units may be reduced where targeted levels of staff cost to revenue ratio have not been achieved over the same period.

Long-term incentive plan awards in 1994 *continued*

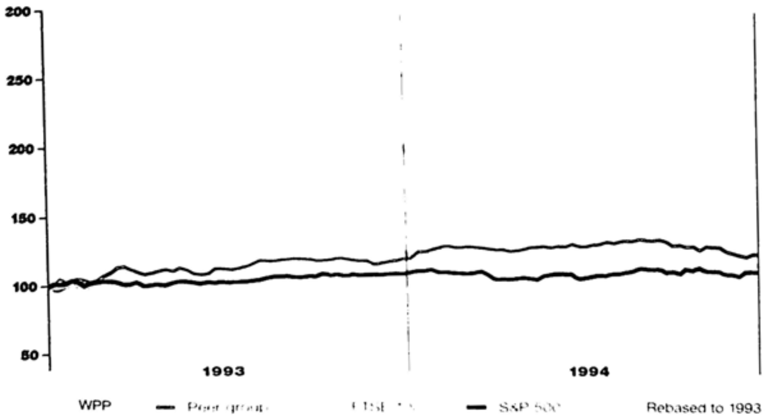
Notes continued

3 $117,000 (£76,400) was accrued on behalf of Mr P Barnard under the Research International long-term incentive plan. This amount is subject to adjustment (up or down) over the period 1995-1996 based on specified operating profit targets for the company.

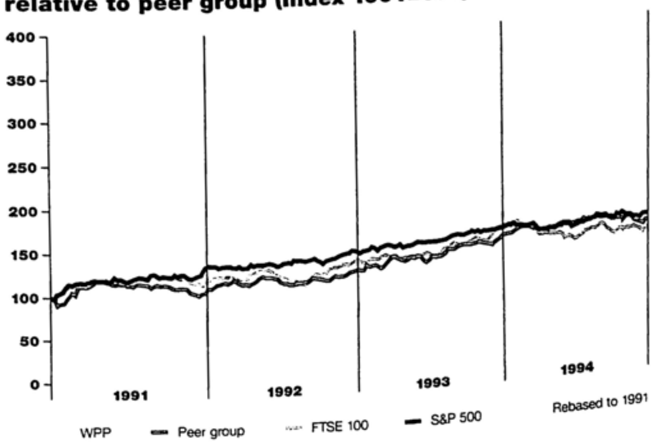
4 For the purposes of the above table, figures have been translated into dollars at the rate of $1.5323 to £1.

The tables below compare the return to investors in WPP shares with the average return in the Company's peer group, the UK FTSE 100 Index and the US S&P 500 Index, over a two and four year period, with all income re-invested. The two year period covers the financial years during which the Group's short and long-term incentive plans have been in place.

WPP total return to share owners relative to peer group (Index 1993=100)



WPP total return to share owners relative to peer group (Index 1991=100)



Employee information

Equal opportunities

The Group endorses and supports the principles of Equal Employment Opportunity. It is the policy of the Group to provide Equal Employment Opportunity to all qualified individuals without regard to race, creed, colour, age, religion, sex, disability, sexual orientation, marital status, military service, national origin or ancestry.

The purpose of the Group's policy is to ensure that all employment decisions are made, subject to its legal obligations, on a non-discriminatory basis, whether at the time of employment, in promotion, training, remuneration, termination of employment or whenever any terms and conditions of employment with the Group are being considered.

Employee consultation and involvement

The Group places considerable importance on the contributions to be made by all employees to the progress of the Group through their respective companies, and aims to keep them informed on matters affecting them as employees and on developments within the Group. This is achieved by formal and informal meetings at the individual company level, and by distribution of the Annual Report and Accounts and a regular newsletter throughout the Group.

Senior employees of the Group are eligible to receive grants under the WPP Executive Share Option Scheme. At 5 May 1995 options have been granted to a total of 662 (May 1994: 615) employees over 23,161,609 (May 1994: 14,200,685) ordinary shares of the Company.

Employees own approximately 7% (1993: 7%) of the issued share capital of the Company.

Statutory information

Substantial share ownership

As at 5 May 1995, the Company has been notified of the following interests of 3% or more in the issued ordinary share capital of the Company:

	%
Fidelity	8.76
Provident Mutual	3.50

The disclosed interest of Fidelity refers to the combined holdings of FMR Corp., Fidelity International Limited and Edward C Johnson III (the principal shareholder of these companies), and that of Provident Mutual to Provident Mutual Life Assurance Association and Provident Mutual Managed Pension Funds Limited.

The Company has not been notified of any other holdings of ordinary share capital in excess of 3%.

Profits and dividends

The profit on ordinary activities before tax for the year was £85.3 million (1993: £54.4 million). The directors recommend a final ordinary dividend of 0.75p (net) (1993: 0.65p) per share to be paid on 17 July 1995 to share owners on the register at 16 June 1995 which, together with the interim ordinary dividend of 0.385p (1993: 0.35p) per share paid on 30 November 1994 makes a total of 1.135p (net) for the year (1993: 1.0p). Dividends payable for the year in respect of the Company's Convertible Cumulative Redeemable Preference shares amount to 1.7¢ (1993: 1.7¢) per share. The retained profit for the year of £38.1 million is carried to reserves.

Group activities

The principal activity of the Group continues to be the provision of marketing services worldwide. The Company acts only as a holding company and does not trade.

Fixed assets

The consolidated balance sheet includes a conservative estimate of certain corporate brand names. Details of this and movements in fixed assets are set out in notes 10, 11 and 25.

Share capital

Details of movements in share capital are given in note 20.

Following the conversion in August and September 1994 of convertible cumulative redeemable preference shares ("CCRP Shares") into ordinary shares and in view of the conversion of the remainder of all the outstanding CCRP Shares, which takes effect on 19 May 1995, it is proposed in paragraph (a) of Resolution 5 set out in the Notice of Annual General Meeting that the authorised ordinary share capital of the Company be increased from £79,968,300 to £100,000,000 by the creation of an additional 200,317,000 ordinary shares of 10p each, which will represent an increase of 25% in the authorised ordinary share capital of the Company. The increase is being proposed to ensure that sufficient authorised share capital is available for issue under the general authority to allot shares set out in paragraph (b) of that Resolution.

It is proposed in paragraph (b) of Resolution 5 to authorise the directors to allot relevant securities without the prior consent of share owners for a period of five years from the date of the resolution. The £26,277,977 nominal amount of relevant securities to which this authority relates, after full conversion of the CCRP Shares and allowing for the exercise of options, the subscription rights under warrants and the obligations under the earn-out commitments, represents 33% of the nominal amount of issued share capital of the Company as at 15 May 1995. Except pursuant to the conversion of the CCRP Shares, the exercise of options, the subscription rights under warrants and satisfaction of the obligations under the earn-out commitments, the directors have no present intention of exercising this authority.

Authority to allot equity securities

At last year's annual general meeting a special resolution was passed, pursuant to section 95 of the Companies Act 1985, empowering the directors to allot equity securities for cash without first being required to offer such shares to existing share owners. It is proposed in Resolution 6 that this authority be renewed. The £3,602,312 nominal amount of equity securities to which this authority relates represents 4.9% of the issued share capital of the Company as at 15 May 1995. The resolution also allows the directors to allot shares for cost by rights issues. This authority will expire on the earlier of 25 September 1996 and the date of the annual general meeting after the meeting to be held on 26 June 1995, and follows London Stock Exchange guidelines.

Charitable and political contributions

The Group contributed £253,000 to UK charities in 1994 (1993: £200,000). No contributions were made to political parties.

Close company status

The Company is not a close company within the meaning of the provisions of the Income and Corporation Taxes Act 1988.

Auditors

The directors will place a resolution before the Annual General Meeting to re-appoint Arthur Andersen as auditors for the ensuing year.

By Order of the Board
D F Calow
Secretary
15 May 1995

Report of the auditors to WPP Group plc on Corporate Governance matters:

In addition to our audit of the financial statements we have reviewed the directors' statements on pages 59, 62 and 63 concerning the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code which is not disclosed.

We carried out our review in accordance with Bulletin 1995/1 'Disclosures relating to corporate governance' issued by the Auditing Practices Board. That bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Company's system of internal financial control or its corporate governance procedures nor on the ability of the Company to continue in operational existence.

Opinion

With respect to the directors' statements on internal financial control on pages 62 and 63, and going concern on page 59, in our opinion the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) 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 on page 62 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review.

Arthur Andersen
Chartered Accountants and Registered Auditors
London
15 May 1995

Report of the auditors to the members of WPP Group plc:

We have audited the financial statements set out on pages 74 to 99, which have been prepared under the historical cost convention (as modified for the revaluation of certain fixed assets) and the accounting policies set out on pages 74 to 75.

Respective responsibilities of directors and auditors

As described on page 63 the Company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and 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 preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 1994 and of the profit and cash flows of the Group for the financial year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen
Chartered Accountants and Registered Auditors
London
15 May 1995

Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. A summary of the Group's principal accounting policies, which have been applied consistently throughout the year and with the preceding year, is set out below.

1 Basis of accounting and presentation of financial statements

The financial statements are prepared under the historical cost convention, modified to include the revaluation of land and buildings and corporate brand names.

The presentation of the Group and Company balance sheets has been modified to bring them into line with the disclosure requirements of Financial Reporting Standard 4, 'Capital Instruments' and Financial Reporting Standard 5 'Reporting the Substance of Transactions', which came into effect during the year. Comparative figures have been re-stated as appropriate although there has been no change to reported profits.

2 Basis of consolidation

The consolidated financial statements include the results of the Company and all its subsidiary undertakings made up to the same accounting date. The results of subsidiary undertakings acquired or disposed of during the year are included or excluded from the profit and loss account from the effective date of acquisition or disposal.

The Group's share of the profits less losses of associated undertakings is included in the consolidated profit and loss account and the investments are shown in the Group balance sheet at the Group's share of the net assets of these companies less provisions for permanent diminution in value. The Group's share of the profits less losses and net assets is based on current audited information produced by the companies, adjusted to conform with the accounting policies of the Group.

3 Goodwill

Goodwill represents the excess of the fair value attributed to investments in businesses or subsidiary undertakings over the fair value of the underlying net assets at the date of their acquisition. Goodwill arising on consolidation is written off against reserves in the year in which it arises. The profit or loss on the disposal or termination of a business includes goodwill previously written off to reserves.

4 Intangible fixed assets

Intangible fixed assets comprise certain acquired separable corporate brand names. These are shown at a valuation of the incremental earnings expected to arise from the ownership of brands. The valuations have been based on the present value of notional royalty savings arising from the ownership of those brands and on estimates of profits attributable to brand loyalty. The valuations are subject to annual review. No depreciation is provided since, in the opinion of the directors, the brands do not have a finite useful economic life.

5 Tangible fixed assets

Tangible fixed assets are shown at cost or valuation less accumulated depreciation. Depreciation is provided at rates calculated to write off the cost or valuation less estimated residual value of each asset on a straight-line basis over its estimated useful life, as follows:

Freehold buildings – 2% per annum
Leasehold land & buildings – over the term of the lease
Fixtures, fittings & equipment – 10% to 33% per annum

Surpluses arising on the revaluation of tangible fixed assets are credited to a non-distributable revaluation reserve. On the disposal of a revalued fixed asset the revaluation surplus is transferred to distributable reserves.

6 Investments

Investments in subsidiary undertakings are stated in the Company's financial statements at cost less amounts written off for any permanent diminution in value.

7 **Stocks and work in progress**

Work in progress is valued at cost or on a percentage of completion basis. Cost comprises outlays incurred on behalf of clients, and an appropriate proportion of direct costs and overheads on incomplete assignments. Provision is made for irrecoverable costs where appropriate. Stocks are stated at the lower of cost and net realisable value.

8 **Debtors**

Debtors are stated net of provisions for bad and doubtful debts.

9 **Taxation**

Corporate taxes are payable on taxable profits at current rates. Deferred taxation is calculated under the liability method and provision is made for all timing differences which are expected to reverse, at the rates of tax expected to be in force at the time of the reversal.

10 **Pension costs**

Contributions to defined contribution schemes are made in accordance with the recommendations of actuaries and are charged to the profit and loss account as incurred. Further details of the actuarial assumptions used are contained in note 23(d) to the financial statements.

The charge to the profit and loss account (the regular pension cost) in respect of defined benefit pension schemes is calculated to achieve a substantially level percentage of the current and expected future pensionable payroll. Variations from regular costs are allocated to the profit and loss account over a period approximating to the scheme members' average remaining service lives.

11 **Operating leases**

Operating lease rentals are charged to the profit and loss account on a systematic basis. Any premium or discount on the acquisition of a lease is spread over the life of the lease.

12 **Turnover and revenue**

Turnover comprises the gross amounts billed to clients in respect of commission based income together with the total of other fees earned. Revenue comprises commission and fees earned in respect of turnover. Turnover and revenue are stated exclusive of VAT, sales taxes and trade discounts.

13 **Translation of foreign currencies**

Foreign currency transactions arising from normal trading activities are recorded in local currency at current exchange rates. Monetary assets and liabilities denominated in foreign currencies at the year-end are translated at the year-end exchange rate. Foreign currency gains and losses are credited or charged to the profit and loss account as they arise. The profit and loss accounts of overseas subsidiary undertakings are translated into pounds sterling at average exchange rates and the year-end net investments in these companies are translated at year-end exchange rates. Exchange differences arising from retranslation at year-end exchange rates of the opening net investments and results for the year are dealt with as movements in reserves.

Consolidated profit and loss account

For the year ended 31 December 1994

Notes		1994 £m	1993 £m	1994 $m	1993 $m
1	**Turnover (gross billings)**	**6,013.7**	6,029.9	**9,214.8**	9,054.5
	Revenue	**1,426.9**	1,430.7	**2,186.4**	2,148.3
	Gross profit	**1,203.9**	1,209.1	**1,844.7**	1,815.6
2	Other operating expenses before exceptional items (net)	**(1,080.3)**	(1,099.9)	**(1,655.3)**	(1,651.6)
3	Exceptional items within operating expenses	**(11.5)**	(14.2)	**(17.6)**	(21.3)
	Total operating expenses (net)	**(1,091.8)**	(1,114.1)	**(1,672.9)**	(1,672.9)
1	**Operating profit**	**112.1**	95.0	**171.8**	142.7
3	Non-operating exceptional items	**–**	(10.9)	**–**	(16.4)
	Profit on ordinary activities before interest	**112.1**	84.1	**171.8**	126.3
	Interest receivable	**8.8**	10.6	**13.5**	15.9
4	Interest payable and similar charges	**(35.6)**	(40.3)	**(54.5)**	(60.5)
2	**Profit on ordinary activities before taxation**	**85.3**	54.4	**130.8**	81.7
7	Tax on profit on ordinary activities	**(35.8)**	(29.4)	**(54.9)**	(44.1)
	Profit on ordinary activities after taxation	**49.5**	25.0	**75.9**	37.6
	Minority interests	**(2.1)**	(2.1)	**(3.2)**	(3.2)
	Profit for the financial year	**47.4**	22.9	**72.7**	34.4
8	Preference dividends	**(1.1)**	(2.4)	**(1.7)**	(3.6)
	Profit attributable to ordinary share owners	**46.3**	20.5	**71.0**	30.8
8	Ordinary dividends	**(8.2)**	(5.2)	**(12.6)**	(7.8)
	Retained profit for the year	**38.1**	15.3	**58.4**	23.0
9	**Earnings per share (net basis)**				
	Basic earnings per ordinary share	**7.9p**	4.9p	**12.1¢**	7.4¢
	Fully diluted earnings per ordinary share	**6.5p**	3.4p	**10.0¢**	5.1¢
8	**Ordinary dividend per share (net)**				
	Interim dividend	**0.385p**	0.35p	**0.59¢**	0.53¢
	Final dividend	**0.75p**	0.65p	**1.15¢**	0.98¢

The main reporting currency of the Group is the pound sterling and the financial statements have been prepared on this basis. Solely for convenience, the financial statements set out on pages 76 and 77 are also presented expressed in US dollars using the approximate average rate for the year for the profit and loss account (1994: $1.5323=£1, 1993: $1.5016=£1), and the rate in effect on 31 December for the balance sheets (1994: $1.5645=£1, 1993: $1.4795=£1). This translation should not be construed as a representation that the pound sterling amounts actually represent, or could be converted into, US dollars at the rates indicated.

There is no material difference between the results disclosed in the profit and loss account and the historical cost profit as defined by Financial Reporting Standard 3.

Movements in reserves are set out in note 21.

The accompanying notes form an integral part of this profit and loss account.

Consolidated balance sheet

As at 31 December 1994

Notes		1994 £m	1993 £m	1994 $m	1993 $m
	Fixed assets				
10	Intangible assets	**350.0**	350.0	**547.6**	517.8
11	Tangible assets	**129.7**	132.4	**202.9**	195.9
12	Investments	**23.2**	22.1	**36.3**	32.7
		502.9	504.5	**786.8**	746.4
	Current assets				
13	Stocks and work in progress	**103.8**	76.9	**162.4**	113.8
14	Debtors	**673.5**	593.7	**1,053.7**	878.4
15	Debtors within working capital facility:				
	Gross debts	**200.6**	210.4	**313.8**	311.3
	Non-returnable proceeds	**(112.1)**	(124.7)	**(175.4)**	(184.5)
		88.5	85.7	**138.4**	126.8
16	Investments	**2.1**	2.3	**3.3**	3.4
	Cash at bank and in hand	**314.6**	316.9	**492.2**	468.8
		1,182.5	1,075.5	**1,850.0**	1,591.2
17	**Creditors:** amounts falling due within one year	**(1,327.5)**	(1,224.7)	**(2,076.9)**	(1,812.0)
	Net current liabilities	**(145.0)**	(149.2)	**(226.9)**	(220.8)
	Total assets less current liabilities	**357.9**	355.3	**559.9**	525.6
18	**Creditors:** amounts falling due after more than one year	**(387.7)**	(412.3)	**(606.6)**	(610.0)
19	**Provisions for liabilities and charges**	**(75.9)**	(103.9)	**(118.7)**	(153.7)
	Net liabilities	**(105.7)**	(160.9)	**(165.4)**	(238.1)
	Capital and reserves				
	Attributable to equity interests:				
20	Called up share capital	**72.0**	52.0	**112.6**	76.9
21	Share premium account	**401.1**	294.1	**627.6**	435.1
21	Goodwill write off reserve	**(1,032.9)**	(829.1)	**(1,616.0)**	(1,226.7)
21	Other reserves	**103.7**	100.5	**162.2**	148.7
21	Profit and loss account	**339.8**	111.7	**531.6**	165.3
	Attributable to non-equity interests:				
20	Called up share capital	**0.6**	9.6	**0.9**	14.2
21	Share premium account	**5.8**	99.4	**9.1**	147.1
	Share owners' funds	**(109.9)**	(161.8)	**(172.0)**	(239.4)
	Equity minority interests	**4.2**	0.9	**6.6**	1.3
	Total capital employed	**(105.7)**	(160.9)	**(165.4)**	(238.1)

Signed on behalf of the Board on 15 May 1995:
M S Sorrell
Group chief executive

The accompanying notes form an integral part of this balance sheet.

Consolidated cash flow statement

For the year ended 31 December 1994

	1994 £m	1993 £m
Reconciliation of operating profit to net cash inflow from operating activities:		
Operating profit	112.1	95.0
Depreciation charge	26.6	25.8
Loss on sale of tangible fixed assets	0.1	0.3
Increase in stocks and work in progress	(28.8)	(16.3)
Increase in debtors	(95.2)	(5.6)
Increase/(decrease) in creditors – short term	165.5	90.7
– long term	(11.6)	8.2
Decrease in provisions	(1.9)	(5.2)
Share of associated undertakings profits before tax	(12.3)	(7.5)
Net cash inflow from operating activities	154.5	185.4
Returns on investments and servicing of finance		
Interest received	9.4	10.3
Interest paid	(38.9)	(40.8)
Dividends and other receipts from associated undertakings	4.5	2.2
Dividends paid	(8.2)	(3.1)
Dividends paid to minorities	(1.5)	(4.3)
Net cash outflow from returns on investments and servicing of finance	(34.7)	(35.7)
Taxation		
United Kingdom and overseas tax paid	(22.0)	(26.3)
Investing activities		
Purchase of investments	(3.0)	(2.3)
Purchase of tangible fixed assets	(30.0)	(23.9)
Proceeds from sale of tangible fixed assets	1.8	0.9
Proceeds from sale of subsidiaries	-	24.2
Earnout payments made relating to the acquisition of subsidiary undertakings in prior years	(16.6)	(28.4)
Net cash outflow from investing activities	(47.8)	(29.5)
Net cash inflow before financing	50.0	93.9
Financing		
Repayment of bank loans	(47.2)	(60.2)
Reduction in drawings on bank loans	(1.4)	(73.6)
Banking syndicate and refinancing costs paid	(9.2)	(4.9)
Proceeds from 1993 rights issue	-	84.9
Capital element of finance leases	(0.6)	(0.4)
Net cash outflow from financing	(58.4)	(54.2)
(Decrease)/increase in cash and cash equivalents excluding the effect of foreign exchange rate changes	(8.4)	39.7
Effect of foreign exchange rate changes on cash and cash equivalents	(11.0)	(2.6)
Balance of cash and cash equivalents at beginning of year	287.9	250.8
Balance of cash and cash equivalents at end of year	268.5	287.9

The accompanying notes form an integral part of this cash flow statement.

Notes to the consolidated cash flow statement

The following table analyses cash and cash equivalents as disclosed in the consolidated cash flow statement and reconciles this to net debt included in the consolidated balance sheet.

Analysis of cash, cash equivalents and net debt as shown in the consolidated balance sheet	**1994 £m**	Change in year £m	1993 £m	Change in year £m	1992 £m
Cash at bank and in hand	**314.6**	(2.3)	316.9	29.8	287.1
Bank overdrafts and short term bank loans	**(46.1)**	(17.1)	(29.0)	7.3	(36.3)
Cash and cash equivalents	**268.5**	(19.4)	287.9	37.1	250.8
Other bank loans and loan notes	**(306.5)**	65.1	(371.6)	119.0	(490.6)
Net debt	**(38.0)**	45.7	(83.7)	156.1	(239.8)

The following table reconciles the movements in cash and cash equivalents for the year included in the consolidated cash flow statement to the reduction in the Group's net debt position.

Reconciliation of increase in cash and cash equivalents to reduction in net debt	**1994 £m**	1993 £m
(Decrease)/increase in cash and cash equivalents excluding the effect of foreign exchange rate changes (see consolidated cash flow statement)	**(8.4)**	39.7
Repayment of bank loans funded from cash flow	**47.2**	60.2
Reduction in drawings on bank loans funded from cash flow	**1.4**	73.6
Issue of loan notes in consideration for the acquisition of subsidiary undertakings in prior years	**(2.8)**	(3.3)
Effect of foreign exchange movements on net debt	**8.3**	(14.1)
Reduction in net debt for the year as shown above	**45.7**	156.1

Analysis of changes in financing during 1993 and 1994	Share capital and share premium account		Loans and finance lease obligations	
	1994 £m	1993 £m	**1994 £m**	1993 £m
Beginning of year	**455.1**	359.4	**372.6**	491.6
Conversion of Convertible Cumulative Redeemable Preference shares	**23.6**	8.3	**-**	–
Shares issued for non-cash consideration relating to the acquisition of subsidiary undertakings in prior years	**0.8**	2.5	**-**	–
Proceeds of rights issue, net of expenses	**-**	84.9	**-**	–
Repayment of bank loans and finance leases	**-**	–	**(47.2)**	(60.6)
Foreign exchange movements on long term borrowings	**-**	–	**(19.3)**	11.4
Loan notes issued for non-cash consideration relating to the acquisition of subsidiary undertakings in prior years	**-**	–	**2.8**	3.3
Net reductions in drawings of bank loans	**-**	–	**(1.4)**	(73.6)
Inception of finance lease contracts, net of repayments	**-**	–	**(0.2)**	0.5
End of year	**479.5**	455.1	**307.3**	372.6

Sale of businesses

There were no significant sales of businesses during 1994.

The 1993 consolidated cash flow statement includes a reduction in the Group's borrowings of £31.9 million as a result of the sale of businesses during that year. The assets disposed of comprised fixed assets of £5.6 million, goodwill of £53.8 million, cash of £7.8 million, and working capital and provisions of £(4.9) million. Proceeds from sales amounted to £51.4 million, represented by cash of £31.9 million, loan notes of £11.1 million and the assumption of £8.4 million of liabilities. The businesses sold absorbed £1.9 million from the Group's net operating cash flows in 1993.

Reconciliation of movements in consolidated share owners' funds

For the year ended 31 December 1994

Notes		1994 £m	1993 £m
	Profit for the financial year	**47.4**	22.9
8	Ordinary and preference dividends payable	**(9.3)**	(7.6)
		38.1	15.3
21	Exchange adjustments on foreign currency net investments	**26.8**	(32.6)
21	Net movement on goodwill write-off reserve	**(13.8)**	27.3
20, 21	Other share capital and share premium issued, net of foreign exchange arising on the conversion of Cumulative Convertible Redeemable Preference shares	**0.8**	2.3
	Proceeds of rights issue, net of expenses	**-**	84.9
	Adjustment to revaluation of tangible and intangible fixed assets	**-**	(6.0)
	Net additions to share owners' funds	**51.9**	91.2
	Opening share owners' funds	**(161.8)**	(253.0)
	Closing share owners' funds	**(109.9)**	(161.8)

Consolidated statement of recognised gains and losses

For the year ended 31 December 1994

Notes		1994 £m	1993 £m
	Profit for the financial year	**47.4**	22.9
21	Exchange adjustments on foreign currency net investments	**26.8**	(32.6)
21	Foreign exchange arising on conversion of Convertible Cumulative Redeemable Preference shares	**(23.6)**	(8.5)
	Adjustment to revaluation of tangible and intangible fixed assets	**-**	(6.0)
	Total recognised gains and losses	**50.6**	(24.2)

1 **Segment information**

The Group provides marketing services both on a national and multinational basis.

Contributions by geographical area to Group turnover, operating profit and non-interest bearing assets/(liabilities) were as follows:	Turnover		Operating profit		Non-interest bearing assets/(liabilities)	
	1994 £m	1993 £m	**1994 £m**	1993 £m	**1994 £m**	1993 £m
United Kingdom	**718.4**	753.6	**14.8**	17.6	**24.1**	53.7
United States	**2,611.6**	2,850.6	**45.2**	42.9	**(240.2)**	(257.2)
Canada	**109.4**	146.1	**0.2**	2.3	**6.0**	3.6
Continental Europe	**1,347.6**	1,257.4	**24.7**	3.4	**36.3**	35.1
Other regions	**1,226.7**	1,022.2	**27.2**	28.8	**106.1**	87.6
	6,013.7	6,029.9	**112.1**	95.0	**(67.7)**	(77.2)
Items not allocated in the above geographical analysis:						
Net debt					**(38.0)**	(83.7)
Net liabilities in the consolidated balance sheet					**(105.7)**	(160.9)

There is no significant cross border trading. Of the non-operating exceptional items arising in 1993, net expenses of £1.2 million arose in the United Kingdom, £8.2 million in the United States and £1.5 million in Continental Europe.

Contributions by operating sector to Group revenue, operating profit/(loss) and non-interest bearing assets/(liabilities) were as follows:	Turnover		Operating profit/(loss)		Non-interest bearing assets/(liabilities)	
	1994 £m	1993 £m	**1994 £m**	1993 £m	**1994 £m**	1993 £m
Media advertising	**5,361.2**	5,394.7	**83.2**	63.8	**(97.2)**	(97.8)
Public relations	**96.0**	100.1	**(5.9)**	(9.9)	**12.0**	9.7
Market research	**226.7**	213.2	**12.7**	12.4	**12.1**	10.9
Specialist communications	**329.8**	321.9	**22.1**	28.7	**5.4**	–
	6,013.7	6,029.9	**112.1**	95.0	**(67.7)**	(77.2)
Items not allocated in the above sector analysis:						
Net debt					**(38.0)**	(83.7)
Net liabilities in the consolidated balance sheet					**(105.7)**	(160.9)

Media advertising includes £4,586.8 (1993: £4,599.2 million) of media and production payments.

Of the non-operating exceptional items arising in 1993, net expenses of £2.7 million related to media advertising, and £8.2 million to specialist communications.

Certain items, including the valuation of corporate brand names, have been allocated within the above analyses of non-interest bearing assets/(liabilities) on the basis of the revenues of the subsidiary undertakings to which they relate.

Notes to the consolidated profit and loss account

2 Analysis of cost of sales and operating costs

Profit on ordinary activities before taxation is stated after charging/(crediting):	**1994 £m**	1993 £m
Cost of sales – media and production payments	**4,586.8**	4,599.2
– direct costs	**223.0**	221.6
Administration and other operating expenses	**1,092.7**	1,109.0
Share of profits of associated undertakings before tax	**(12.3)**	(7.5)
Other operating income	**(0.1)**	(1.6)

These amounts include:	**1994 £m**	1993 £m
Depreciation of and amounts written off		
– owned tangible fixed assets	**25.7**	24.9
– assets held under finance leases and hire purchase contracts	**0.9**	0.9
Operating lease rentals		
– plant and machinery	**17.3**	16.7
– property	**90.7**	92.2
Hire of plant and machinery	**1.0**	1.0
Charges in respect of working capital facilities (note 15)	**8.4**	4.7
Auditors' remuneration		
– audit fees	**1.8**	1.8
– fees in respect of other advisory work	**2.6**	2.2

3 Exceptional items

Exceptional items comprise:	**1994 £m**	1993 £m
Within operating expenses (net)		
Severance costs	**11.5**	14.2
Non-operating exceptional items		
Loss on sale or closure of companies	**–**	10.9

4 Interest payable and similar charges

On bank loans, overdrafts and other loans	**1994 £m**	1993 £m
– repayable within five years, by instalments	**25.4**	29.3
– repayable within five years, not by instalments	**9.7**	10.3
	35.1	39.6
On all other loans	**0.5**	0.7
	35.6	40.3

5 Directors' emoluments

Directors' emoluments are disclosed on page 64.

6 Staff costs

Emoluments of directors and employees during the year amounted to:	**1994 £m**	1993 £m
Wages and salaries	**526.4**	564.6
Charge under short and long term incentive plans	**36.0**	27.0
Social security costs	**63.2**	62.6
Other pension costs	**22.7**	24.6
	648.3	678.8

The average weekly number of people employed by the Group during the year was as follows:	**1994 Number**	1993 Number
United Kingdom	**3,327**	3,559
United States	**6,191**	7,135
Canada	**549**	666
Continental Europe	**3,646**	3,798
Other regions	**5,485**	5,258
	19,198	20,416

Management incentive plans

Key employees of each of the Group's operating companies participate in performance-related compensation plans under which a significant portion of their total compensation is directly related to the financial performance of their own company. This includes annual incentive plans which reward the achievement of annual operating targets.

In addition, a limited group of senior operating company executives participate in long term incentive plans under which awards are payable in a combination of cash and interests in WPP Group plc ordinary shares. These payments are based on the achievement of pre-determined levels of operating profit, operating margin targets and staff cost to revenue ratios over rolling three year periods. To the extent that future payments are considered to arise as a result of current year activity, a charge has been made to the profit and loss account for the period.

7 Tax on profit on ordinary activities

The tax charge is based on the profit for the year and comprises:	**1994 £m**	1993 £m
Corporation tax at 33% (1993: 33%)	**0.1**	(0.2)
Deferred taxation	**3.7**	(0.9)
Overseas taxation	**25.4**	27.3
Tax on profits of associate companies	**4.3**	3.2
Advance corporation tax written off	**2.3**	–
	35.8	29.4
Effective tax rate on profit before non-operating exceptional items	**42%**	45%

The Group tax rate on profit before non-operating exceptional items of 42% is lower than the rate for the prior year as a result of improving operating profitability in the United States and the continued reduction in the effective tax rate in Europe.

The Group's effective tax rate for the year is higher than the United Kingdom rate of 33% due to a significant portion of overseas income being subject to higher levels of taxation while, in the United States, tax losses after interest expense are not currently fully utilised. In addition, as a result of the Group not having significant profits chargeable to tax in the United Kingdom, £2.3 million of advance corporation tax has been written off.

Notes to the consolidated profit and loss account

8 Ordinary and preference dividends

	1994 Pence per share (net)	1993 Pence per share (net)	1994 £m	1993 £m
Preference dividend				
1.7¢ (net) Convertible Cumulative Redeemable Preference shares of $0.10 each	**1.10p**	1.13p	**1.1**	2.4
Ordinary dividend				
Interim dividend paid	**0.385p**	0.35p	**2.8**	1.7
Final dividend payable	**0.750p**	0.65p	**5.4**	3.5
	1.135p	1.00p	**8.2**	5.2

9 Earnings per ordinary share

a) *Earnings per share*

Basic earnings per share have been calculated using earnings of £46.3 million (1993: £20.5 million) and weighted average shares in issue during the year of 589,802,460 shares (1993: 423,300,948 shares).

Fully diluted earnings per share have been calculated on a weighted average of 734,748,662 shares (1993: 675,034,381 shares). This allows for full conversion of the Group's remaining Convertible Cumulative Redeemable Preference shares and for employee share options where these are dilutive.

b) *Earnings per share (nil paid)*

Earnings per share on a nil paid basis have been calculated by adding back irrecoverable advance corporation tax on ordinary dividends of £2.1 million (1993: £nil) to the Group's earnings of £46.3 million.

Basic and fully diluted earnings per share on a nil paid basis are as follows:	1994	1993
Basic earnings per share	**8.2p**	4.9p
Fully diluted earnings per share	**6.8p**	3.4p

c) At 31 December 1994 there were 720,462,433 (1993: 520,470,820) ordinary shares in issue.

10 Intangible fixed assets

	1994 £m	1993 £m
Corporate brand names	**350.0**	350.0

Corporate brand names represent the directors' valuation of the brand names J. Walter Thompson Company and Hill and Knowlton which were originally valued in 1988, and Ogilvy & Mather Worldwide acquired in 1989 as part of The Ogilvy Group, Inc.. These assets have been valued in accordance with the Group's accounting policy for intangible fixed assets. In the course of their annual review the directors consulted their advisers, The Henley Centre and Samuel Montagu & Co. Limited.

11 Tangible fixed assets

The movement in the year was as follows:	Land and buildings Freehold £m	Land and buildings Leasehold £m	Fixtures, fittings & equipment £m	Total £m
Cost:				
Beginning of year	11.8	97.7	124.3	233.8
Additions	0.4	7.3	22.3	30.0
Disposals	(0.1)	(4.3)	(5.5)	(9.9)
Exchange adjustments	(0.3)	(2.7)	(0.2)	(3.2)
End of year	11.8	98.0	140.9	250.7
Depreciation:				
Beginning of year	2.1	26.4	72.9	101.4
Charge	0.3	7.4	18.9	26.6
Disposals	–	(3.8)	(4.2)	(8.0)
Exchange adjustments	0.2	0.5	0.3	1.0
End of year	2.6	30.5	87.9	121.0
Net book value:				
End of year	9.2	67.5	53.0	129.7
Beginning of year	9.7	71.3	51.4	132.4

Leasehold land and buildings comprises £1.1 million (1993: £2.2 million) held on long leasehold and £66.4 million (1993: £69.1 million) on short leasehold. Leased assets (other than leasehold property) included above have a net book value of £2.0 million (1993: £2.7 million).

12 Fixed asset investments

The following are included in the net book value of fixed asset investments:	Associated undertakings £m	Other investments £m	Total £m
Beginning of year	20.7	1.4	22.1
Additions	1.3	–	1.3
Disposals and transfers	(1.2)	–	(1.2)
Share of retained profits of associated undertakings	8.0	–	8.0
Dividends and other receipts	(4.5)	–	(4.5)
Exchange adjustments	(2.6)	0.1	(2.5)
End of year	21.7	1.5	23.2

Details concerning the Company's principal operating subsidiary undertakings, related undertakings and divisions are provided in note 24.

13 Stocks and work in progress

The following are included in the net book value of stocks and work in progress:	**1994 £m**	1993 £m
Raw materials and consumables	**0.5**	0.6
Work in progress	**99.9**	73.7
Finished goods and goods for resale	**3.4**	2.6
	103.8	76.9

Notes to the consolidated balance sheet

14 Debtors

The following are included in debtors:	**1994 £m**	1993 £m
Amounts falling due within one year:		
Trade debtors outside working capital facility	**538.5**	453.7
VAT and sales taxes recoverable	**8.3**	9.2
ACT recoverable	**–**	3.6
Corporate income taxes recoverable	**4.4**	6.8
Other debtors	**45.6**	41.3
Prepayments and accrued income	**46.2**	43.3
	643.0	557.9
Amounts falling due after more than one year:		
Other debtors	**24.7**	26.3
Prepayments and accrued income	**5.8**	9.5
	30.5	35.8
Total debtors	**673.5**	593.7

15 Debtors within working capital facility

The following are included in debtors within the Group's working capital facilities:	**1994 £m**	1993 £m
Gross debts	**200.6**	210.4
Non-returnable proceeds	**(112.1)**	(124.7)
	88.5	85.7

Within the Group's overall working capital facilities, certain trade debts have been assigned as security against the advance of cash. This security is represented by the assignment of a pool of trade debts, held by one of the Group's subsidiaries, to a trust for the benefit of the providers of this working capital facility. The financing provided against this pool takes into account, inter alia, the risks that may be attached to individual debtors and the expected collection period.

The Group is not obliged (and does not intend) to support any credit-related losses arising from the assigned debts against which cash has been advanced. The providers of the finance have confirmed in writing that, in the event of default in payment by a debtor, they will only seek repayment of cash advanced from the remainder of the pool of debts in which they hold an interest, and that repayment will not be sought from the Group in any other way.

16 Current asset investments

The following are included in the net book value of current asset investments:	**1994 £m**	1993 £m
Unlisted investments, at cost	**2.1**	2.3

17 Creditors: amounts falling due within one year

The following are included in creditors falling due within one year:	**1994 £m**	1993 £m
Bank loans and overdrafts (note 18)	**57.1**	72.4
Unsecured loan notes	**4.7**	6.6
Trade creditors	**861.5**	757.2
Corporate income taxes payable	**24.3**	21.5
Other taxation and social security	**46.9**	43.9
Dividends payable	**5.5**	4.4
Due to vendors of acquired companies	**3.9**	17.7
Other creditors and accruals	**282.5**	264.4
Deferred income	**41.1**	36.6
	1,327.5	1,224.7

Bank loans and overdrafts include £11.0 million (1993: £43.4 million) of amounts repayable under the Group's Consolidated Credit Agreement during 1995.

18 Creditors: amounts falling due after more than one year

The following are included in creditors falling due after more than one year:	**1994 £m**	1993 £m
Bank loans	**287.2**	316.0
Unsecured loan notes	**3.6**	5.6
Corporate income taxes payable	**58.2**	46.1
Other creditors and accruals	**38.7**	44.6
	387.7	412.3

The Group is party to a Consolidated Credit Agreement with its banking syndicate which covers the majority of its borrowings. These borrowings are predominantly dollar denominated, and were originally assumed on the acquisitions of JWT Group, Inc., and The Ogilvy Group, Inc.. They are repayable in scheduled instalments of $10 million on 31 December 1995, $30 million on 30 June 1996, $35 million on 31 December 1996 and the balance on 30 June 1997. The Group's syndicated term and working capital and other borrowings drawn down under the agreement at 31 December 1994 totalled $460.7 million (1993: $515.5 million).

Interest on the majority of the Group's borrowings is payable at a margin of 2% over US dollar LIBOR and, for a significant proportion of borrowings, is hedged for the next three to four years at US dollar LIBOR of 6% and below (excluding margin and hedging costs).

Borrowings under the Consolidated Credit Agreement are secured by pledges of the issued share capital of the majority of the Group's subsidiaries, and are governed by certain financial covenants based on the results and financial position of the Group.

The Group's unsecured loan notes are repayable during the years 1995 to 1997. Certain of the notes carry warrants to subscribe for ordinary shares of the Company (note 20).

The following is an analysis of overdrafts, bank loans and unsecured loan notes by year of repayment:	**1994 £m**	1993 £m
Within 1 year	**61.8**	79.0
Between 1 and 2 years	**44.9**	10.6
Between 2 and 5 years	**244.9**	309.3
Over 5 years – by instalments	**1.0**	1.7
	352.6	400.6

19 Provisions for liabilities and charges

The movement in the year on Group provisions comprises:	Deferred taxation £m	Property £m	Pension and other £m	Total £m
Beginning of year	20.8	21.5	61.6	103.9
Charged in profit and loss account	3.7	–	13.1	16.8
Utilised	(2.9)	(10.2)	(4.8)	(17.9)
Transfers	(12.8)	2.9	(14.3)	(24.2)
Exchange adjustments	(1.3)	(1.0)	(0.4)	(2.7)
End of year	7.5	13.2	55.2	75.9

Deferred tax has been provided to the extent that the directors, on the basis of reasonable assumptions and the intentions of management, have concluded that it is probable that liabilities will crystallise. No provision is made for tax that would arise on the remittance of overseas earnings.

At 31 December 1994, the provision for deferred taxation comprises current timing differences of £7.5 million (1993: £4.7 million) and non-current timing differences of £nil (1993: £16.1 million). The current timing differences comprise accelerated capital allowances of £3.0 million, interest receivable of £2.0 million, and other timing differences of £2.5 million. There is no material unprovided deferred tax at 31 December 1994.

During the year tax provisions amounting to £9.6 million established on the acquisition of The Ogilvy Group, Inc. were reallocated against other potential tax liabilities with a reclassification of these balances from deferred taxation to other provisions and creditors due in more than one year.

Property provisions comprise amounts set aside in respect of certain property leases carrying commitments in excess of foreseeable requirements and for sublet losses.

Pension and other provisions include £43.1 million (1993: £41.7 million) in respect of pension-related obligations. The majority of these provisions arise in the United States and Continental Europe. Unfunded pension costs are provided for in the Group's balance sheet. The remaining provisions principally comprise other staff related provisions, in particular relating to the long-term incentive plans operated by certain of the Group's subsidiaries. Payments will be made for the first time in 1995 to a limited group of senior executives within these subsidiaries out of the long-term incentive plans. The short term liability in respect of these payments has been transferred to creditors falling due within one year.

20 Authorised and issued share capital

Equity interests	1994 Number	1994 £m	1993 Number	1993 £m
Authorised				
Ordinary shares of 10p each	**799,683,000**	**80.0**	799,678,000	80.0
Unclassified shares of $0.10 each	**226,222,994**	**14.5**	55,110,737	2.7
"A" ordinary convertible shares of 10p each	**-**	**-**	5,000	-

Allotted, called up and fully paid	Ordinary shares	
Movements in the year were as follows:	**Number**	**£m**
Beginning of year	**520,470,820**	**52.0**
Ordinary shares issued on the conversion of Convertible Cumulative Redeemable Preference shares	**192,027,337**	**19.2**
Ordinary shares issued during the year in further consideration for the acquisition of subsidiary undertakings	**7,959,276**	**0.8**
Conversion of "A" ordinary convertible shares	**5,000**	**-**
End of year	**720,462,433**	**72.0**

Non-equity interests	1994 Number	1994 £m	1993 Number	1993 £m
Authorised				
Convertible Cumulative Redeemable Preference ("CCRP") shares of $0.10 each	**33,494,003**	**1.8**	204,606,260	10.8

Allotted, called up and fully paid	CCRP shares	
Movements in the year were as follows:	**Number**	**£m**
Beginning of year	**181,647,764**	**9.6**
Converted into ordinary shares during the year	**(171,112,257)**	**(9.0)**
End of year	**10,535,507**	**0.6**

Convertible Cumulative Redeemable Preference shares

Of the CCRP shares in issue at 1 January 1994, 171,112,257 were converted during August and September 1994 into 192,027,337 ordinary shares of the Company. In April and May 1995 all those remaining were converted into 11,823,262 ordinary shares.

The CCRP shares carried rights to convert at the option of owners at any time up to and including 31 December 2001 at the rate of approximately 1.122 ordinary shares for each CCRP held, and had a fixed dividend entitlement subject to certain limits based on dividends paid on the Company's ordinary shares.

Prior to conversion, they ranked above other shares in the event of a winding up in respect of the repayment of capital and any arrears of dividend. The attached voting rights were restricted to certain events and were never exercised.

Notes to the consolidated balance sheet

20 Authorised and issued share capital *continued*

"A" ordinary convertible shares

The "A" ordinary convertible shares were issued to the vendors of a company acquired in 1986. They were convertible into ordinary shares of the Company at the option of the share owner and in accordance with the Company's Articles of Association, the number of ordinary shares to be allotted on their conversion being based on the profits attained by the acquired company in the period up to 31 May 1992. At the last Annual General Meeting, share owners voted to convert the outstanding "A" ordinary convertible shares at par into ordinary shares of the Company.

Unclassified shares

Provisions in the Company's Articles of Association concerning the CCRP shares allow the directors to redesignate the reduction in authorised CCRP share capital following their conversion into ordinary shares as authorised shares of another class. Consequently, on conversion of CCRP shares during 1994, the relevant CCRP share capital was redesignated as 171,112,257 Unclassified shares of $0.10 each, making a total of 226,222,994 authorised shares. The unclassified shares have no rights attached to them. No shares of this class were issued during the year.

Share options

As at 31 December 1994, options have been granted under the WPP Executive Share Option Scheme over a total of 20,409,576 (1993: 13,503,044) ordinary shares, exercisable between 1995 and 2004 at prices per share ranging from 29.5p to 647.0p.

Warrants

5,071,025 subscription warrants are in issue, each of which carries the right to subscribe for one ordinary share of the Company on 30 June in each of the years 1995 to 1996 inclusive at a subscription price of £10.00 per share. Additionally, certain of the Group's unsecured loan notes carry warrants, which expired on 16 April 1995, to subscribe for 875,000 ordinary shares of the Company at a price of £8.90 per share.

21 Reserves

Movements during the year were as follows:	Share premium account £m	Goodwill write off reserve £m	Other reserves £m	Profit and loss account £m
Balance at beginning of year	393.5	(829.1)	100.5	111.7
Transfer from special reserve to profit and loss account	–	(190.0)	–	190.0
Retained profit for the financial year	–	–	–	38.1
Currency translation movement	–	–	26.8	–
Share premium and foreign exchange arising on the conversion of Convertible Cumulative Redeemable Preference shares	13.4	–	(23.6)	–
Write off of goodwill arising on consolidation in the year (note 22)	–	(22.3)	–	–
Premium on shares issued during the year in further consideration for the acquisition of subsidiary undertakings (note 20)	–	8.5	–	–
Balance at end of year	406.9	(1,032.9)	103.7	339.8
Attributable to:				
Equity interests	401.1	(1,032.9)	103.7	339.8
Non-equity interests	5.8	–	–	–
	406.9	(1,032.9)	103.7	339.8

Other reserves at 31 December 1994 comprise: capital reserve £1.9 million (1993: £1.9 million); currency translation deficit £73.2 million (1993: £76.4 million); and revaluation reserve £175.0 million (1993: £175.0 million). Cumulative goodwill resulting from acquisitions which has been written off to the goodwill write off reserve, net of goodwill relating to disposals transferred to the profit and loss account, amounts to £1,150.3 million.

The balance on the share premium account at the beginning of the year comprised £294.1 million attributable to equity interests, and £99.4 million attributable to non-equity interests. Following the conversion of Convertible Cumulative Redeemable Preference ("CCRP") shares in August and September 1994, £93.6 million of non-equity share premium was reclassified as equity interests.

In 1987, the balance on the Company's share premium account amounting to £211.1 million was cancelled under court sanction and transferred, pursuant to an undertaking given to the court, to a special non-distributable reserve. This reserve has been included within the goodwill write off reserve. On 19 April 1994 the Company was granted leave by the court to vary the terms of the undertaking, allowing £190.0 million to be transferred from this special reserve to distributable reserves, with the remaining balance to be transferred to distributable reserves upon satisfaction of certain conditions laid down in the revised undertaking. At 31 December 1994 the Company's distributable reserves amounted to £191.6 million (note 30).

The terms of issue of the CCRP shares require that they be revalued at the rate of exchange prior to conversion. The exchange difference arising from the revaluation of CCRP shares in August and September 1994 has been transferred to the currency translation reserve in the Company's financial statements. Further details of these conversions are included in note 20.

Notes to the consolidated balance sheet

22 Acquisitions and disposals

The Group did not make any material acquisitions or disposals during 1994. Further amounts paid either in cash or in share capital in respect of earlier acquisitions gave rise to goodwill of £22.3 million (note 21).

23 Guarantees and other financial commitments

a) *Capital commitments*

At the end of the year, capital commitments were:	**1994 £m**	1993 £m
Contracted for but not provided for	**0.7**	0.3
Authorised but not contracted for	**1.3**	0.3
	2.0	0.6

b) *Contingent liabilities*

Acquisitions made in earlier years (excluding JWT Group, Inc. and The Ogilvy Group, Inc.) may give rise to further consideration resulting in goodwill in addition to that arising from payments to date. Any further payments will be payable in cash and ordinary shares of the Company dependent upon the level of profitability of these acquired subsidiary undertakings over the period up to 31 December 1995. It is not practicable to estimate with any reasonable degree of certainty the total additional consideration to be paid. However, the directors estimate that the additional payments which may be payable in respect of all such subsidiary undertakings, including amounts accrued in the balance sheet at 31 December 1994, would be:

	Payable in			
	Shares £m	Cash £m	**1994 Total £m**	1993 Total £m
Within 1 year from 31 December 1994	3.7	15.2	**18.9**	28.9
Within 2 to 5 years	–	–	**–**	18.6
	3.7	15.2	**18.9**	47.5

The above analysis is calculated at 1994 average exchange rates, and assumes that the vendors choose cash rather than shares where the option exists. The analysis also assumes that the Company issues shares where the option exists, although in many cases it has the right to settle in cash if it so wishes. Shares, when received as consideration, must generally be retained by vendors for a minimum period of three years.

In the opinion of the directors, there should be no reduction in the net assets of the Group over this period taking into account only profits from those companies whose vendors are entitled to receive future payments. The Group's cash flow projections for these companies for the same period indicate a net cash generation after taxation in excess of these maximum contingent cash payments.

The Company and various of its subsidiaries are, from time to time, parties to legal proceedings and claims which arise in the ordinary course of business. The directors do not anticipate that the outcome of these proceedings and claims will have a material adverse effect on the Group's financial position.

23 Guarantees and other financial commitments *continued*

c) *Operating lease commitments*

The Group has entered into non-cancellable leases in respect of plant and machinery. The total annual rental for 1994 was £17.3 million (1993: £16.7 million). The lease agreements provide that the Group will pay all insurance, maintenance and repairs.

In addition, the Group leases certain land and buildings on short and long-term leases. The annual rental on these leases for 1994 was £90.7 million (1993: £92.2 million). The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The Group pays for the insurance, maintenance and repair of these properties.

	Plant and machinery		Property	
The minimum committed annual rentals payable in the following year under the foregoing leases will be as follows:	**1995 £m**	1994 £m	**1995 £m**	1994 £m
In respect of operating leases which expire:				
– within 1 year	**5.6**	3.8	**8.8**	7.6
– within 2 to 5 years	**10.1**	8.9	**21.6**	31.4
– after 5 years	**-**	0.5	**58.7**	54.1
	15.7	13.2	**89.1**	93.1

d) *Pension arrangements*

Companies within the Group operate a large number of pension schemes, the forms and benefits of which vary with conditions and practices in the countries concerned. The schemes are administered by trustees and, in most cases, are independent of the Group.

The Group's pension costs are analysed as follows:	**1994 £m**	1993 £m
Defined contribution schemes	**14.8**	16.5
Defined benefit schemes	**7.9**	8.1
	22.7	24.6

Where defined benefit schemes exist the pension cost is assessed in accordance with the advice of qualified actuaries using the projected unit credit and attained age methods. The latest actuarial assessments of the schemes were undertaken within the last three years. The major assumptions used by the actuaries were that in general the return on plan assets would be 9%, salary increases would be between 4% and 8% and pension increases would be 5%. The market value of plan assets totalled £112m at the year end and the actuarial value of the assets was sufficient to cover approximately 104% of the benefits which had accrued to members after allowing for expected future increases in salaries.

The Group has no material non-pension post retirement benefit obligations.

Notes to the consolidated balance sheet

24 Principal operating subsidiary undertakings and divisions

The Company's principal subsidiary undertakings, related undertakings and divisions at 31 December 1994 are shown below, together with a note of their principal activity and country of operation or registration. The Company directly or indirectly held 100% (except as noted) of each class of the issued shares of the subsidiaries.

Company	Activity	Country
Media advertising		
Cole & Weber	*Media Advertising*	USA
Conquest	*Media Advertising*	Italy
J. Walter Thompson Company	*Media Advertising*	USA
Ogilvy & Mather Worldwide	*Media Advertising*	USA
Public relations		
Carl Byoir & Associates	*Public Relations*	USA
Hill and Knowlton	*Public Relations*	USA
Ogilvy Adams & Rinehart	*Public Relations*	USA
Timmons and Co.	*Public Affairs and Government Relations*	USA
The Wexler Group	*Public Affairs and Government Relations*	USA
Market research		
Millward Brown International	*Market Research*	England
MRB Group	*Market Research*	England
Research International	*Market Research*	England
Specialist communications		
Anspach Grossman Portugal	*Corporate Identity*	USA
Brouillard Communications	*Business to Business Advertising*	USA
BDG/McColl	*Interior Design, Architecture and Graphic Design*	England
Coley Porter Bell	*Brand and Corporate Identity Design*	England
A Eicoff & Co.	*Direct Marketing*	USA
Einson Freeman	*Sales Promotion*	USA
EWA	*Database Marketing*	England
Ferguson Communications Group	*Specialist Healthcare Advertising*	USA
The Futures Group (20%)	*Strategic Marketing Consultancy*	USA
G-Force	*Event and Video Production*	England
The Henley Centre	*Strategic Marketing Consultancy*	England
HLS CORP	*Specialist Healthcare Advertising*	USA
J. Walter Thompson Direct	*Direct Marketing*	USA
Mando Marketing	*Sales Promotion*	England
TMC	*Sales Promotion and Marketing*	England

24 **Principal operating subsidiary undertakings and divisions** *continued*

Specialist Communications *continued*		
Mendoza, Dillon & Asociados	*Hispanic Advertising*	USA
MetroVideo	*Audio Visual Products/Services*	England
Oakley Young 4th Dimension	*Point-of-purchase, Graphic and Retail Design*	England
Ogilvy & Mather Direct	*Direct Marketing*	USA
Pace Communications Group	*Real Estate Marketing*	USA
Primary Contact	*Business, Finance and Recruitment Advertising*	England
Promotional Campaigns Worldwide	*Sales Promotion*	England
RTC Direct	*Database Management*	USA
SampsonTyrrell	*Corporate and Brand Identity Design*	England
SBG Partners	*Packaging and Corporate Identity Design*	USA
Scott Stern Associates	*Design and Marketing*	Scotland
S.U.N. Health-Core	*Healthcare Marketing*	USA
Thompson Recruitment Advertising	*Recruitment Advertising*	USA
Walker Group/CNI	*Retail Architecture, Interior and Graphic Design*	USA
Manufacturing		
Alton Wire Products	*Manufacture of Wire Products*	England
North Kent Plastic Cages	*Manufacture of Wire and Sheet Metal Products*	England
Refrigeration (Bournemouth)	*Sale and Installation of Shopfitting Equipment*	England
Staffordshire Holloware	*Manufacture of Aluminium Products*	England

Non-coterminous year-ends

Japan Market Research Bureau has a year-end of 31 May for commercial reasons. The 1994 Group financial statements include accounts in respect of this company prepared for the year ended 31 December 1994.

Company balance sheet

As at 31 December 1994

Notes		1994 £m	1993 £m
	Fixed assets		
25	Tangible assets	**1.0**	0.4
26	Investments	**799.4**	763.6
		800.4	764.0
	Current assets		
27	Debtors	**284.5**	284.5
	Cash at bank and in hand	**35.5**	12.1
		320.0	296.6
28	**Creditors:** amounts falling due within one year	**(177.9)**	(140.3)
	Net current assets	**142.1**	156.3
	Total assets less current liabilities	**942.5**	920.3
29	**Creditors:** amounts falling due after more than one year	**(186.0)**	(158.4)
	Net assets	**756.5**	761.9
	Capital and reserves		
	Attributable to equity interests		
20	Called up share capital	**72.0**	52.0
30	Share premium account	**401.1**	294.1
30	Merger reserve	**117.6**	299.1
30	Currency translation reserve	**(32.2)**	(8.6)
30	Profit and loss account	**191.6**	16.3
	Attributable to non-equity interests		
20	Share capital	**0.6**	9.6
30	Share premium account	**5.8**	99.4
	Total capital employed	**756.5**	761.9

Signed on behalf of the Board on 15 May 1995:

M S Sorrell

Group chief executive

As provided by Section 230, Companies Act 1985, the profit and loss account for the Company has not been presented. Included within the consolidated profit and loss account for the financial year is a loss of £14.7 million (1993: loss of £1.4 million) in respect of the Company.

The accompanying notes form an integral part of this balance sheet.

25 Tangible fixed assets

The movement in the year was as follows:	Short leasehold buildings £m	Fixtures, fittings & equipment £m	Total £m
Cost:			
Beginning of year	0.2	0.9	1.1
Additions	0.4	0.5	0.9
End of year	0.6	1.4	2.0
Depreciation:			
Beginning of year	0.1	0.6	0.7
Charge	0.1	0.2	0.3
End of year	0.2	0.8	1.0
Net book value:			
31 December 1994	0.4	0.6	1.0
31 December 1993	0.1	0.3	0.4

26 Fixed asset investments

The following are included in the net book value of fixed asset investments:	Subsidiary undertakings £m
Beginning of year	763.6
Additions	35.8
End of year	799.4

Details of the Company's principal subsidiary undertakings are shown in note 24.

27 Debtors

The following are included in debtors:	**1994 £m**	1993 £m
Amounts owed by subsidiary undertakings	**279.9**	277.4
ACT recoverable	**-**	2.2
Other debtors	**4.3**	4.2
Prepayments and accrued income	**0.3**	0.7
Total debtors	**284.5**	284.5

Included within amounts owed by subsidiary undertakings are loans totalling £178.9m (1993: £181.6m) which fall due for repayment after more than one year.

Notes to the company balance sheet

28 Creditors: amounts falling due within one year

The following are included in creditors falling due within one year:	**1994 £m**	1993 £m
Bank loans and overdrafts	**21.2**	16.3
Unsecured loan notes	**2.8**	4.6
Amounts due to subsidiary undertakings	**137.8**	99.6
Taxation and social security	**2.8**	1.9
Dividends payable	**5.5**	4.4
Other creditors and accruals	**7.8**	13.5
	177.9	140.3

29 Creditors: amounts falling due after more than one year

The following are included in creditors falling due after more than one year:	**1994 £m**	1993 £m
Bank loans	**10.9**	14.4
Amounts due to subsidiary undertakings	**175.1**	144.0
	186.0	158.4

The following is an analysis of all bank loans and unsecured loan notes by year of repayment:	**1994 £m**	1993 £m
Within one year	**24.0**	20.9
Within 2 to 5 years	**10.9**	14.4
	34.9	35.3

The Company's bank loans and overdrafts form part of the Group's facilities under the Consolidated Credit Agreement (see note 18).

30 Reserves

Movements during the year were as follows:	Share premium account £m	Merger reserve £m	Currency translation reserve £m	Profit and loss account £m
Balance at beginning of year	393.5	299.1	(8.6)	16.3
Transfer from special reserve to profit and loss account (note 21)	–	(190.0)	–	190.0
Share premium and foreign exchange arising on the conversion of Convertible Cumulative Redeemable Preference shares	13.4	–	(23.6)	–
Premium on shares issued or converted during the year in further consideration for the acquisition of subsidiary undertakings (note 19)	–	8.5	–	–
Retained loss for the financial year	–	–	–	(14.7)
Balance at end of year	406.9	117.6	(32.2)	191.6
Attributable to:				
Equity interests	401.1	117.6	(32.2)	191.6
Non-equity interests	5.8	–	–	–
	406.9	117.6	(32.2)	191.6

31 Guarantees and other financial commitments

a) *Capital commitments*

At the end of the year, the Company did not have any significant capital commitments.

b) *Contingent liabilities*

The directors estimate that the Company's liability for additional payments in respect of acquisitions made in earlier years, including amounts accrued in the balance sheet at 31 December 1994, would be:

	Payable in			
	Shares £m	Cash £m	**1994 Total £m**	1993 Total £m
Within 1 year from 31 December 1994	3.4	9.6	**13.0**	23.5
Within 2 to 5 years	–	–	**–**	12.9
	3.4	9.6	**13.0**	36.4

c) *Operating lease commitments*

The Company leases certain land and buildings on leases expiring after five years, under which it pays for the insurance, maintenance and repair of these properties. The rent payable under these leases are subject to renegotiation at various intervals specified in the leases. The annual rental on these leases for 1994 was £3.3 million (1993: £3.2 million), of which £2.8 million (1993: £2.8 million) is reimbursed by an operating subsidiary. The minimum committed annual rentals payable during 1995 under the foregoing leases totals £3.4 million (1994: £3.2 million).

In the normal course of its activities the Company has also guaranteed certain of the property leases entered into by its subsidiaries, which expire over periods up to 20 years. The rents payable under these leases during 1995 total £1.0 million (1994: £1.1 million).

d) *Pension arrangements*

The pension cost for the Company of £0.3 million (1993: £0.2 million) represents amounts payable into individually administered personal pension plans in the names of the Company's eligible employees.

Share owners' information

Financial calendar

- The 1994 final dividend will be paid on 17 July 1995 to share owners on the register at 16 June 1995.
- Interim statements for half-years ending 30 June are issued in August.
- Interim dividends are paid in November.
- Preliminary announcements of results for financial years ending 31 December are issued in March.
- Annual reports are posted to share owners in June.
- Annual general meetings are held in London in June.

Share price

The mid market price of the shares at 31 December was as follows:	**1994**	1993
Ordinary 10p shares	**109.0p**	89.0p
Share warrants	**3.0p**	5.0p

The latest ordinary share price information is available on Ceefax and Teletext and also the Cityline service operated by the Financial Times (telephone 0891 434544).

Access numbers

	NASDAQ	**Reuters 2000**	**Topic**
Ordinary shares		WPPL.L	52945
Warrants		WPPL^w.L	52946
American depositary receipts	WPPGY		

Registrar and transfer office

Royal Bank of Scotland plc
PO Box 82
Caxton House
Redcliffe Way
Bristol BS99 7NH

American depository receipts (ADRs)

Citibank N.A.
111 Wall Street
5th Floor
New York, NY 10043
USA

Reclaiming income tax on dividends

Dividends are paid with income tax deducted at the lower rate (20%). The amount deducted is shown on the dividend tax voucher. If your total income is less than your tax allowance you can claim back all the tax deducted from the Inland Revenue. If your income is more than your tax allowance, only the amount in excess of the allowance is liable to tax. Those most likely to be entitled to a repayment of tax include married women not in employment, pensioners and children. If you think you may be entitled to claim, ask your local Tax Office for leaflet IR 112. The address can be found in the telephone book under Inland Revenue.

Capital gains tax

The market value of an ordinary share at 31 March 1982 was 39p. Since that date rights issues have occurred in September 1986, August 1987 and April 1993. For capital gains tax purposes the acquisition cost of ordinary shares is adjusted to take account of such rights issues. Since any adjustments will depend on individual circumstances, share owners are advised to consult their professional advisers.

Registered office

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The Company's registered number is 1003653.

Written and produced by WPP Group plc   Designed by SampsonTyrrell, London

Printed in the UK by Westerham Press, St Ives plc.
The paper used for this report comprises 50% chlorine-free virgin pulp and 50% recycled fibre, including a minimum of 10% post-consumer paper waste, with no added optical brightening agents.

WPP Group plc
1985

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