WPP Group plc

Annual Report and Accounts 1997

Who we are

Who we are

The WPP Group provides communications services to clients throughout the world, including more than 300 of the Fortune Global 500. Our 24,400 people work out of 810 offices in 91 countries.

Every WPP company is a distinctive brand in its own right: all with their own identities and own areas of expertise. That is their strength. What they have in common is that they harness intelligence, talent and experience to bring competitive advantage to their clients.

Advertising

Ogilvy & Mather Worldwide
www.ogilvy.com

J. Walter Thompson Company
www.jwtworld.com

Conquest

Cole & Weber

Batey Holdings[1]
http://bateyads.com.sg

Media planning, buying & research

MindShare

The Media Partnership[1]

Portland Outdoor[1]

CIA[2]
www.cia.co.uk

Information & consultancy

The Kantar Group:

Research International
www.research-int.com

Millward Brown International
www.millwardbrown.com

Kantar Media Research
- IBOPE Media Information[1]
  www.ibope.com
- Symmetrical Resources[1]
  www.symmetrical.com
- Simmons[1]

BMRB International
www.bmrb.co.uk

IMRB International[1]
www.imrbint.com

Winona Group
www.winonaresearch.com

Goldfarb Consultants
www.goldfarbconsultants.com

Public relations & public affairs

Hill and Knowlton
www.hillandknowlton.com

Ogilvy Public Relations Worldwide
www.ogilvypr.com

Timmons and Company

The Wexler Group
www.wexlergroup.com

Carl Byoir & Associates

Buchanan Communications
www.buchanan.uk.com

Chime Communications PLC[1]

Specialist communications

Branding, identity & corporate consultancy

Addison
www.addison.co.uk

Banner McBride

BDG McColl

Brouillard
www.brouillard.com

Coley Porter Bell

Enterprise IG
www.enterpriseig.com

SBG Enterprise
www.sbg.com

JWT Specialized Communications
www.jwtworks.com

Scott Stern
www.scottstern.co.uk

[1] Associate investment
[2] Minority investment

Specialist communications cont

Direct, promotion & relationship marketing

A. Eicoff & Co.

BF&A

DSB & K

Einson Freeman

EWA

Mando Marketing

Oakley Young

OgilvyOne
www.ogilvyone.com

Primary Contact

Promotional Campaigns Group

RTCdirect
www.rtcdirect.com

The Grass Roots Group[1]
www.grg.co.uk

Strategic marketing consulting

Charles River Strategies
www.crstrat.com

The Futures Group[1]
www.tfg.com

The Henley Centre

Management Ventures (MVI)
www.mventures.com

MSI Consulting
www.msiconsulting.com

Specialist communications cont

Sector marketing

Demographic marketing

The Geppetto Group

The Intuition Group

Mendoza Dillon & Asociados

Healthcare

CommonHealth
– Ferguson Communications Group
– Health Learning Systems
– OZM Group

Real estate

Pace

Retail

Walker Group/CNI
www.wgcni.com

Technology

Smith and Jones
www.smithandjones.co.uk

Media and technology services

Clever Media
www.clever.co.uk

The Metro Group
www.metrogroup.co.uk

Savatar
www.savatar.com

New media investments

BroadVision[2]
www.broadvision.com

Wired Ventures[2]
www.hotwired.com

HyperParallel[2]
www.hyperparallel.com

NewsEdge Corporation[2]
www.newsedge.com

Media Technology Ventures[2]
www.mtventures.com

Peapod[2]
www.peapod.com

Syzygy[2]
www.syzygy.co.uk

[1] Associate investment
[2] Minority investment

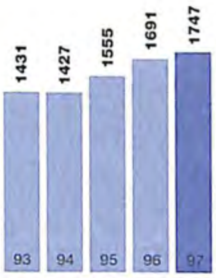
1997 financial summary

The 1997 results represent record profits in our twelfth year, with continued improvements in revenues, margins and earnings and a further reduction in net debt.

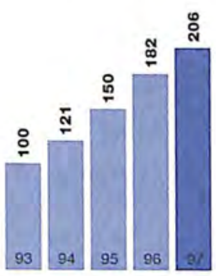
	1997	1996	Change (%)
Turnover (gross billings)	**£7,287m**	£7,084m	+2·9
Cost of sales	**£5,540m**	£5,393m	+2·7
Revenues	**£1,747m**	£1,691m	+3·3
Earnings before interest, tax, depreciation, and amortisation	**£235m**	£211m	+11·4
Operating profit	**£206m**	£182m	+12·7
Operating profit margin	**11·8%**	10·8%	+1·0
Profit before tax	**£177m**	£153m	+15·7
Fully diluted earnings per share	**15·4p**	13·3p	+15·8
Fully diluted earnings per ADR[1]	**$2·52**	$2·08	+21·2
Ordinary dividend per share	**2·13p**	1·7p	+25·3
Ordinary dividend per ADR[1]	**34·9¢**	26·6¢	+31·2
Net cash at year-end	**£195m**	£159m	+22·6
Average net debt	**£115m**	£145m	-20·7
Share price at year-end	**269·5p**	254·0p	+6·1
Market capitalisation	**£1,984m**	£1,883m	+5·4

[1]One American Depositary Receipt (ADR) represents 10 ordinary shares

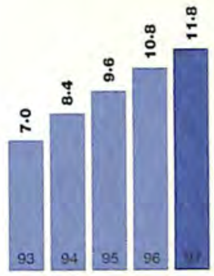
Revenue (£m)



Operating profit (£m)

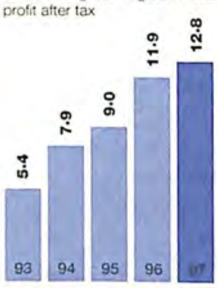


Operating margins (%)

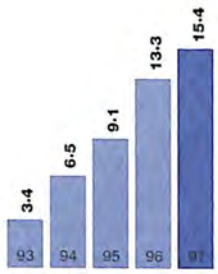


After tax return on average capital employed[†] (%)

†Calculated gross of goodwill, revaluation reserve and using profit after tax

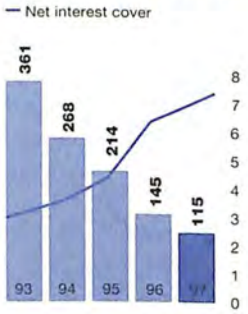


Fully diluted earnings per share (p)



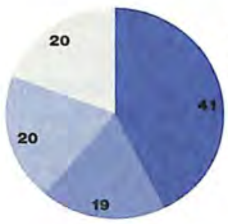
WPP total return to share owners relative to peer group (rebased to 1993)

Average net debt (£m) & interest cover (multiple)



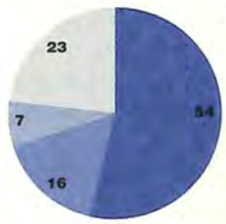
Net interest includes working capital facility charges

Revenue by geography (%)



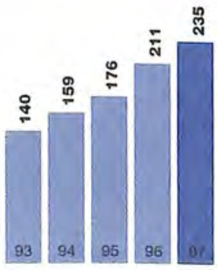
41 North America
19 United Kingdom
20 Continental Europe
20 Asia Pacific, Latin America, Africa & Middle East

Revenue by sector (%)

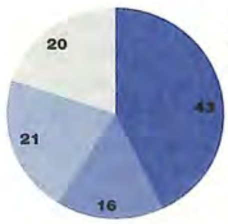


54 Advertising
16 Information & consultancy
7 Public relations & public affairs
23 Specialist communications

Earnings before interest, tax, depreciation, and amortisation (£m)



Operating profit by geography (%)



43 North America
16 United Kingdom
21 Continental Europe
20 Asia Pacific, Latin America, Africa & Middle East

Operating profit by sector (%)

64 Advertising
13 Information & consultancy
4 Public relations & public affairs
19 Specialist communications

Letter to share owners

Dear share owner,
1997 was a record year despite the strength of sterling and economic difficulties in Asia.

Pre-tax profits were up 16% to £177 million, earnings per share up 16% and dividends up 25%. The real measure of your wealth, the share price, rose only 6% during 1997, but since the year-end has appreciated a further 41%, to 381p.

The rest of this report is based on a constant currency comparison, which may be more meaningful because of the great strength of sterling in 1997.

Constant currency revenues were up over 11%. All our disciplines – advertising, information and consultancy, public relations and public affairs and specialist communications – grew well with the greater growth outside advertising.

The same was true geographically with North America, Continental Europe and Asia Pacific, Latin America and the Middle East growing by double digits and the United Kingdom a little less.

Operating margins were up by over 1% in line with our objectives, as numbers of people increased by 2% while revenues grew by four times as much. Consequently operating profits grew by over 23% to £205·5 million.

Pre-tax profits were up by even more at over 28%, reflecting lower interest costs and improved profitability and cash flow. We generated over £100 million of free cash flow and average net debt fell over 20% from £145 million to £115 million.

Finally, earnings per share rose at a similar rate at over 28%.

1998 has started well and should see similar improvement. After three months, revenues are up over 13% (over 8% on a like-for-like basis). Liquidity improved still further. Net debt averaged £84 million versus £92 million for the same period last year. Operating margins are on budget which indicate improvement by 1% in 1998 in line with our objectives.

We continue to seek ways of unlocking added value for both our clients and our people and proving the real value in WPP and its strategy. Our goal remains to become the world's most successful and preferred provider of communications services to both multinational and national companies.

Our objectives are as follows:

– First, to continue to raise operating margins to the level of the best performing competition, from almost 12% last year to almost 13% this year and to 14% by the year 2000.

– Second, to increase the flexibility in our cost structure to cope with the recessions when they come. Our investment in people and property account for approximately 60% of revenues. Variable staff costs, including not only incentive compensation, but also freelancers and consultants, account for approximately 6% of revenues and we aim for 7-8%.

– Third, having achieved our objectives of reducing average net debt to approximately £100 million and increasing interest cover to 6-7 times, to focus on how we can improve share owner value through alternative investments in capital expenditures, acquisitions, dividends and share buy-backs.

As capital expenditures are unlikely to absorb more than 120%-130% of depreciation; as acquisitions in certain disciplines and markets seem to be fully priced at the moment, reflecting premium stock market values; as increasing dividends raises the level of fixed charges in the business; and as we have confidence in the growth of our business, it is likely that we will consider investing a significant amount of our free cash flow in share buy-backs. We are already committed to a rolling buy-back programme of £50 million per annum equivalent to 2-3% of the outstanding share capital.

– Fourth, to develop the role of the parent company: from that of a financial holding or investment company (concentrating solely on financial planning, budgeting, reporting and control, treasury, tax, mergers and acquisitions and investor relations) to one that adds value to clients and our people by identifying functions that can most efficiently be developed at the centre.

Over the past five years, important new roles have been created at the parent company in human resources, property management, procurement, information technology and practice development. Individuals have been recruited from Towers Perrin, Chestertons, Dun & Bradstreet, British Airways, Booz Allen & Hamilton, The Monitor Company, and our own Henley Centre. These appointments are now making significant contributions.

However, we have not been adding overheads at the centre. The parent company head count has remained at approximately 80 people, chiefly in London and New York, with some support in Hong Kong and São Paulo.

For our people, we have implemented both short- and long-term incentive plans, and introduced our Group 100 and 300 Clubs, the Worldwide Ownership Plan, the Worldwide Partnership Program and Atticus Awards.

Our intensive training and knowledge sharing programs – the *Towards Brand Leadership* and *Leading the Firm* courses, specialised seminars on creativity, retailing and interactive media – are much in demand and are invaluable in building interdisciplinary relationships.

In recruitment, our unique WPP Marketing Fellowship Program operates in the US, Europe and soon elsewhere. Every individual in the Group receives a personal copy of the *Navigator*, the Group guidebook to resources and capabilities, as well as the Group's worldwide newspaper, the *WIRE*.

Property management focuses not only on the elimination of surplus property but more importantly on how we can improve our communications, speed of response and efficiency by improving the design and layout of the premises in which we invest over $250 million or approximately 10% of our revenues each year. To this end, we have developed the WPP Space Program to which one of our own operating companies, BDG McColl, has been a major contributor.

Through our procurement initiatives, we encourage more effective purchases of goods and services. We have entered into worldwide arrangements in the areas of airline travel, accommodation and travel, computer hardware/software and telecommunications.

As a Group, we spend over $65 million each year on computer hardware, software and information management salaries. The parent company's initiatives in information technology are designed to develop a coherent strategy and framework in this area which will prevent wasteful duplication and unnecessary reinventing of wheels in various parts of our organisation. Our recent worldwide intranet investment is the first major example of this.

Our practice development initiatives ensure that our vertically-driven operating brands are encouraged to co-operate in developing revenue-producing opportunities in growth areas such as media planning, buying and media research, healthcare, privatisation, new technologies, new markets, retailing and internal communications.

Our portfolio of media investments – which includes Wired Ventures, BroadVision, Media Technology Ventures, Peapod, NewsEdge Corporation, Syzygy and HyperParallel – provides us with access to expertise in the new digital media.

New internal strategic alliances and start-ups are enabling us to expand our offer to clients. Recent examples include Banner McBride in internal communications, Geppetto in youth marketing, Savatar in technology marketing and The Intuition Group in marketing to women.

Essentially all these initiatives are designed to ensure that the parent company inspires, motivates, coaches, encourages and incentivises its operating companies.

– Finally, as we move up the margin curve we are placing greater emphasis on revenue growth. This will be done by focusing our portfolio on those geographical and functional areas that are growing fastest. Asia Pacific, Latin America, Africa and the Middle East, Central and Eastern Europe account for more than 20% of our revenues compared with 11% a few years ago. Despite the current economic difficulties in Asia, which we believe offer significant buying opportunities, these faster-growing markets should account for 33% of our business within the next five years. Information and consultancy, public relations and public affairs, and specialist communications account for 45% of our revenues. We would like to see them account for 55% over a similar period. To achieve this we will expand our strong advertising networks – Ogilvy & Mather Worldwide, J. Walter Thompson Company, Conquest and Batey – in high-growth markets or where we feel their market share is insufficient such as France, Australia or Japan. We will enhance our leadership position in information and consultancy by continuing to develop our major market research brands – Research International, Millward Brown, BMRB International with particular emphasis on Asia Pacific and Latin America. We will also continue to develop Kantar Media Research, which includes IBOPE, our new media research brand. In addition, we will reinforce our media position in direct marketing through OgilvyOne (the new name for Ogilvy & Mather Direct), and continue to nurture the development of digital media through small strategic investments in this volatile and cash-guzzling area.

Lastly, we will continue to develop our specialist expertise in areas such as healthcare, retail, telecommunications and media technology and to identify new areas for development.

As you can see, we have a tremendous amount yet to do. Given the pace of change, and the increasingly global environment in which our clients have to operate, it is certain that as immediate objectives are achieved, new challenges will swiftly replace them.

Underlying our satisfactory figures, both in the results of last year and the encouraging start we have made to 1998, lies a truth we cannot remind ourselves of too often. The numbers are no more than a measurement of the value delivered to our clients; and that value is created, account by account, project by project, discipline by discipline, by the 24,400 talented people who work in WPP Group companies.

We applaud their skills, honour them for their contribution and thank them for their commitment.

Hamish Maxwell

Hamish Maxwell
Chairman

Martin Sorrell

Martin Sorrell
Group chief executive

The role of the parent company

We are increasingly complementing the professional activities of our individual operating companies through cross-Group initiatives and programs which provide greater value to clients as well as opportunities and rewards for our people.

100 and 300 Clubs

These clubs were established to create a strong network of top management and senior professionals within Group companies. Members participate in WPP's Executive Stock Option Awards and customised development programs.

Knowledge Communities

We have initiated a series of communities of Group professionals working in specific sectors or with particular skills, such as retail and interactive media, who can share non-confidential insights, case studies and best practice.

Atticus Awards

Now in its fifth year, the WPP Atticus Awards honour original published thinking in communications services by professionals within the Group. Winning entries are published in our annual marketing journal, The Atticus File.

WPP Marketing Fellowships

33 graduates, both first degree and MBAs, are currently participating in this unique three-year, cross-disciplinary work experience program.

Group Navigator

All our 24,400 people can tap into the Group using our 200 page pocket-sized guide to companies, resources, capabilities and contacts.

WPP Space Program

Our innovative Space Program provides Group companies with best practice guidelines, case studies and videos to enable them to improve the quality and efficiency of their workplaces.

The WIRE

Our worldwide WPP newspaper keeps everyone within Group companies up to date with the latest company and Group news and developments.

Procurement initiatives

A network of Group company purchasing specialists continues to undertake a worldwide training program to maintain our collective skills at best practice levels.

Worldwide Ownership Plan

Over 11,000 of our people now participate in our annual stock option grant program, launched in 1997.

Start-ups

The Group continues to expand its range of competencies in three ways: the extension of services within existing companies; acquisitions; and start-ups. Recent examples of this last category with their respective areas of expertise include Intuition Group, in marketing to contemporary women; Geppetto Group in youth-marketing; Savatar in technology marketing and consulting; and Banner McBride in internal marketing.

New media investments

We are developing an investment portfolio of leading-edge digital media companies to help our clients and our people to understand better the impact interactive technologies will have on their businesses and to develop appropriate services.

Worldwide Partnership Program

This internal program, introduced in 1997, encourages partnerships across Group companies and skills which demonstrably enhance client service. Subsequently, a portfolio of integrated case studies has been established.

Intranet/IT developments

Major hubs of a Group-wide internal global network are installed and early applications – such as the Retail and Interactive Media Knowledge Communities (see left) – are now in use, enabling the sharing of certain information across the spectrum of WPP companies. Further strategic initiatives being developed include an electronic job exchange, now in pilot.

Individually, certain companies are well advanced with their own integral on-line environments. Ultimately, these will be connected as part of the WPP Intranet, making it a vital source of worldwide knowledge.

Training

More than 800 Group company professionals have participated in our ongoing program of cross-company forums, workshops and seminars. These courses develop management expertise, best practice and sector-specific knowledge.

Why we exist

Why successful businesses need Sherpas, Machine Oil and Global Positioning Systems
(They should also remember to polish their apples)

It's always a good question to put to a new client: we all know what you make – but are you as certain what your customers are buying?

Simple as it sounds, it's a constructively difficult question to answer.

You make expensive pens; but that's not what people are buying. What people are buying will be prestige, or personal pleasure, or the hope of gratitude from a recipient.

You make multi-coloured chocolate buttons; but that's not what people are buying. What people are buying is a moment's welcome peace from demanding children.

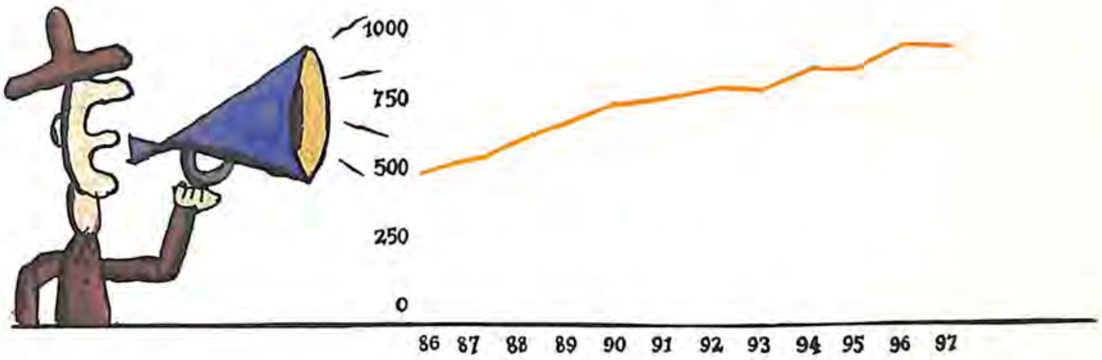
You make laptop PCs; but that's not what people are buying. What people are buying will be self-sufficiency, self-esteem, efficiency and mobility.

As Theodore Levitt pointed out many years ago: people don't want a quarter-inch drill; they want a quarter-inch hole. And for every product or service, there's an equivalent distinction to be made – though seldom so easily or so elegantly.

So it was time, it seemed to us, to ask exactly the same question of ourselves.

We know what we make, all right: what we produce. But what is it exactly that our clients are buying?

Here are some of the more familiar 'products' of the marketing services industry: advertisements, tracking studies, market analysis, Worldwide marketing services expenditure ($bn)



Source: WPP estimates from various trade sources

strategic counsel, retail interiors, corporate videos, annual reports, corporate identities and liveries, sales promotions, media, database marketing, pack designs, employee communications, public relations and public affairs advice.

Worldwide expenditure on all marketing services in 1997 was estimated at almost $1 trillion. As the illustration shows, there continues to be a more-or-less steady growth in such expenditure and the figure represents the aggregate of millions of different decisions voluntarily made by millions of individuals in millions of different competitive enterprises. So it can presumably be assumed that marketing companies, with attitudes ranging from cheerful confidence to resigned reluctance, believe their marketing expenditures to be necessary.

But, as with Ted Levitt's drill, nobody wants to buy advertisements or research reports for their own sakes, to be kept proudly behind glass in the corporate lobby. As with Ted Levitt's drill, all these products are bought in the hope that they will do something: to provide the equivalent of Ted Levitt's hole. Precisely what that something is, and how it differs from service to service, is a great deal harder to identify and articulate. To say that they are bought by companies to make themselves more successful is both true and unhelpful. It tells us what these services are expected to achieve but not how.

It would take a full-length book to do justice to the subject. Each service, each discipline, has a different function, often complementary; most have many more than one; and the functions may change for each client company or each brand over time.

What this brief essay sets out to do is to probe just a little beneath the surface, and try to identify some of the underlying needs that marketing services meet: for most client companies, most of the time. So we will practise what we preach, and start with the consumer. And in our case, of course, our immediate consumers are our clients.

WPP's 50 companies serve some 15,000 clients: and they are all different. They have perhaps just one thing in common:

They all need to put a competitive case; and they all want to do it cost-effectively.

The need 'to put a case' means the need to communicate, by whatever means, with a wider group. And this holds true for repeat purchase consumer goods, for capital goods, for charities, for financial services, for personnel recruitment, for business to business, for media. Within their own sectors, they are all in open competition and they are all seeking to enhance their competitive positions.

It is kindergarten stuff to say that, if a company sets out to improve its profitability, it has only two distinct areas of action open to it: not as alternatives, but as different approaches. It can minimise costs and it can maximise value.

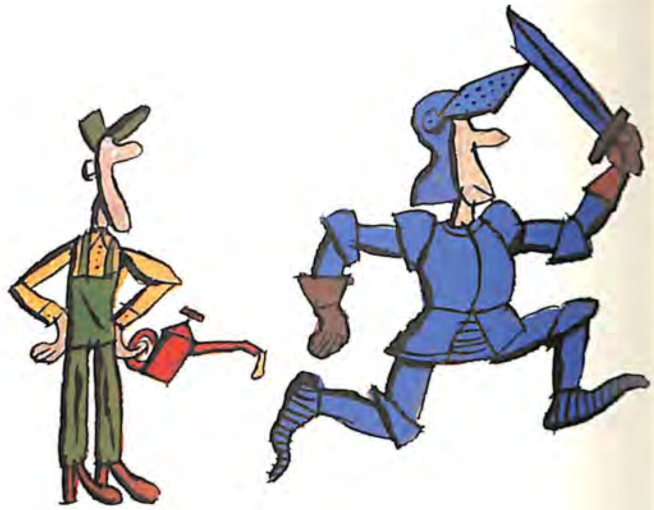
But one way to clarify the contribution of marketing services is to ask: which are the disciplines that help client companies minimise costs; which are the ones that help client companies maximise value; and which, if any, can do both?

The first function of market knowledge, for example, is to minimise subsequent marketing waste. Before you can begin to put a competitive case, you need to know your market, what your prospective consumers think of you, what they think of your competitors, what their misconceptions are, what they know and what they think they know. Without such knowledge, you'll be transmitting blind. You'll be reaching the wrong people with the wrong appeals: and that's a waste of time and a waste of money. Worse, you'll almost certainly be making the wrong product.

In the same way, money spent on the monitoring of your communications as you go along does not of itself add value to those communications: but it's the only way to identify error and so make subsequent expenditure more efficient.

The product that's sold is called Research.

The product that's bought is more like a global positioning system, feeding back to its owner immensely valuable knowledge of competitive position, progress and direction.



The value of employee communications is finally beginning to get the recognition it deserves. When a company decides to achieve new efficiencies through restructuring itself, it may feel like strong leadership – it may even feel efficient – to impose radical change overnight by means of a couple of all-staff memoranda sent down from the bridge. But employees who haven't been consulted, haven't been informed and feel that they haven't even been thought about can be immensely expensive obstacles to change: not because they're ill-intentioned but because they're ill-informed. Ill-informed people quite naturally become apprehensive and resistant. And the consequential costs, though difficult to quantify, will always be high: in the greatly extended implementation process; in the loss of good people; in the general decline in morale. A sustained program of listening, consultation, conversation and information can minimise confusion and hesitation, build trust through understanding, and contribute usefully to a sense of corporate unity.

The product that is sold is called Employee Communications or Internal Marketing.

The product that is bought is more like machine oil: at small extra expense, lubricating the process of comprehension and willing compliance swiftly and smoothly throughout the organisation.

There are other marketing services that fulfil much the same function. Before you start doing business in a country unfamiliar to you,

you will need to know how best to put your case. And that means getting to know the laws and customs of that country; the language of that country; the opinion formers of that country; and the media of that country.

The product that is sold is called Public Affairs.

The product that is bought is more like a mountain guide: an experienced Sherpa who's scaled that peak before and knows where all the crevasses are.

The central virtue of direct marketing – relationship marketing – is its ability to separate the more valuable consumers from the less valuable consumers and concentrate effort and ingenuity on those with the greatest potential. It is an immensely accurate and efficient approach.

The product that is sold is called Direct Marketing.

The product that is bought is more like a prospector's sieve, screening out the mud and waste and exposing the few bright glints of gold for all to see.

All those, and there are many more, are examples of marketing services whose primary but not exclusive value lies within the broad category of contributing to efficiency through saving costs: in many cases, as a result of saving time.

But it's at least as much for the second category – for their

ability to add value to brands and services – that client companies look to marketing services.

Wherever consumers have both money and choice, an intrinsically good product offering gives a marketing company no more than permission to compete. Winning will depend on its ability to add greater value than competitors can: and part of that value will come from presentation. To put a competitive case is to present your case – your company, your product, your idea, your policies, your proposition – as attractively as possible.

It's why people buy cosmetics, why window-dressers should be well paid and why costermongers polish their apples.

No competitive enterprise, in whatever field of endeavour, can leave its apples unpolished and still expect to win. There may still be a few who belong to the 'good wine needs no bush' school of marketing but they won't be found amongst the winners and quite soon they won't be found at all.

There are those who accept the need for pack design but believe that its only function is to make the product 'stand out on shelf'. It should certainly do that; but it should also do a great deal more.

There was much talk a few years back about the coming domination of something called 'generic brands'. As a phrase, it was a contradiction in terms. As a concept, it had limited consumer appeal. But it's instructive to remember just how institutional 'generic' packaging was: like State-approved commodities in State-owned stores in corporatist regimes.

A brand, to be successful, needs to be singular; needs to have a personality; needs to engage the heart as well as the mind. A good pack can synthesise and express all this in a way that no other medium can – and will continue to give added pleasure to its consumers throughout the product's life.

What design companies sell is called Pack Design.

But what clients buy is more like a brand's identity card: its DNA, in telling, graphic form.

For a company, its pack-shot will be its letter-heading, its symbol: a unique combination of words and design that comes to represent the whole.

What design companies sell is called Corporate Identity.

But what clients buy is more like a national flag or football strip: an instantly recognisable rallying-point, that can absorb and re-transmit the values and achievements of the whole.

And then there is advertising, which has almost as many roles and functions as it has users. But probably its most common use – and the one most likely to puzzle both financial directors and social commentators – is that of supporting and promoting established brands and services. People can accept the need for advertising when launching a brand or having made an improvement to a brand – but find it harder to see the value in spending money to tell people about the existence of something they very possibly already use. And it is here that we need to recognise the value of celebrity.

Celebrity is recognised by theatrical agents and promoters and publicists as having a necessary value for people. It has an equivalent value for brands.

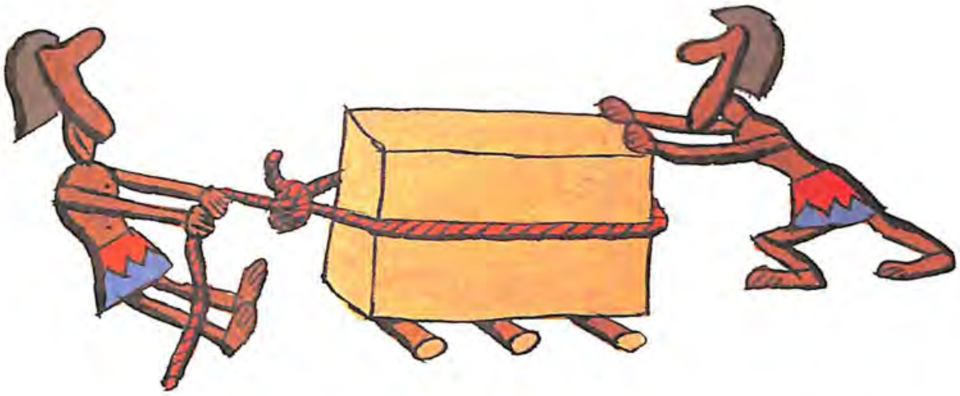
Indeed, George W S Trow has written: 'The most successful celebrities are products.'

Being around, being well known, being salient, being contemporary – in any market – are vital preconditions for sustained competitive success. But these qualities, like suntan, fade over time. They need, constantly, to be refreshed. And that is precisely what much of the best advertising for established brands is doing – year in, year out.

What agencies sell is called Advertising.

But what client companies buy is more like a pool of spotlight on a stage; a trickle recharge for a brand's batteries; or a lasting place in the Hall of Fame.

The demand for communications services continues to grow: and so does the range of such services. Though existing media may be forced to reposition themselves with the arrival of new ones,



no marketing medium has yet been totally superseded. So the choice available to the enterprise with a competitive case to put grows ever wider – and potentially ever more bewildering.

In evaluating the new ones, and in ensuring that the chosen disciplines work together with consonance and coherence, one final metaphor may help.

There are two forces at work when you try to make progress: Thrust and Drag.

Some of our products help their client-consumers reduce Drag, and some help their client-consumers increase Thrust – and some do both.

If they are selected, bought and evaluated not for what they are but for what they do, the management of marketing can seem a great deal less complicated.

Jeremy Bullmore
Director

What we think

Industry overview

In 1997 worldwide expenditure on communications services grew about 7% to more than $900 billion. The industry ranks amongst the top 10 in the United States, the world's largest industrial nation, and is amongst the fastest growing.

The outlook for communications services

The US market continued to strengthen in the low inflation, low interest rate, high employment 'Goldilocks' environment.

Europe and, in particular, Continental Europe, grew strongly from low post-recession levels although some countries such as France and Germany still suffer the highest rates of unemployment since the end of the Second World War. This will probably continue due to the strictures of the entry criteria to European Monetary Union. The UK exhibited reasonable growth, although the strength of sterling made it hard for the manufacturers of 'real' products (as opposed to intangibles such as services) to compete. It is difficult to believe that a British manufacturer can become 20% more competitive over a period of just 12 months.

Asia Pacific and Latin America grew strongly but within the regions there was some volatility. In the latter half of 1997 Thailand, Indonesia, Malaysia, South Korea and the Philippines all suffered significant economic problems, stock market collapses and currency devaluations. There was also some volatility in the Brazilian and Argentinian markets.

Africa and the Middle East, which had previously looked increasingly interesting, looked less so following political uncertainties in South Africa and Israel. Although the two biggest segments of the communications services industry (advertising and promotions accounting for about 40% each) continued to grow strongly, even stronger growth was seen in information and consultancy, public relations and public affairs and specialist communications.

1998 should see similar growth on a worldwide basis, perhaps at a slightly slower rate of 6%. The US and Europe should continue to grow well, along with Latin America. Asia Pacific remains the enigma. Although economic disruption is confined so far to a relatively small part of the region, there are concerns about Japan. In addition, there is a possibility of a 'blow-back' effect on Western economies and multinationals. Fiercely competitive Asia Pacific-based multinationals will be even better placed to compete against their US- and European-based counterparts through their devalued currencies. We have yet to see the potential impact of this on American and European multinationals' profitability.

1999 should see a similar pattern to 1998, but perhaps at a slightly reduced growth rate of 5-6%. However, towards the end of the year, growth should accelerate in front of the US Presidential election in 2000, the millennium Olympics in Sydney and the general focus on the new century.

Although boom conditions are unlikely to continue uninterrupted given relatively low inflation, the economic correction necessary should be relatively mild, certainly in comparison with the 1980s.

Worldwide communications services expenditure 1997 (\$bn)

	Advertising	Market research	Public relations & public affairs	Specialist communications	Total
USA	178·7	4·2	16·6	273·1	472·6
UK	19·4	1·8	3·1	44·9	69·2
France	11·4	0·8	0·7	15·9	28·8
Germany	18·5	1·0	0·9	22·7	43·1
Japan	28·6	0·6	2·7	31·1	63·0
ROW	126·0	2·1	2·4	109·0	239·5
Total	**382·6**	**10·5**	**26·4**	**496·7**	**916·2**

Source: WPP estimates from various trade sources

Top 12 US industries by final dollar sales

US industry	1995 \$bn	1995 Rank	2000 \$bn	2000 Rank
Health & medical services	1070	1	1310	1
Insurance	655	2	880	2
Construction	500	3	675	3
Food & related products	498	4	640	5
Educational services	490	5	670	4
Travel services	430	6	595	6
Motor vehicles & parts	320	7	425	7
Aerospace	270	8	335	11
Communications	251	9	353	9
Electronic equipment & components	245	10	380	8
Telecommunications services	230	11	350	10
Apparel & related goods	160	12	185	12
Top 12 total	5119		6798	

Sources: Veronis Suhler & Associates; Wilkofsky Gruen Associates; US Department of Commerce

Top 12 US industries ranked by five-year growth

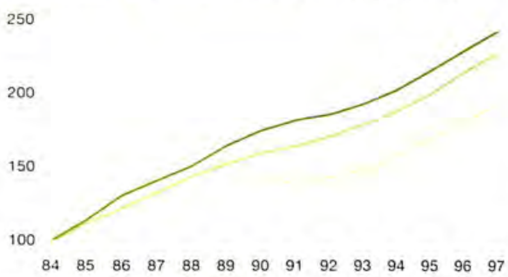
US industry	1990-1995 Growth[†]	1990-1995 Rank	1995-2000 Growth[†]	1995-2000 Rank
Telecommunications services	8·9	1	8·8	2
Health & medical services	7·7	2	4·1	11
Electronic equipment & components	7·5	3	9·2	1
Motor vehicles & parts	6·8	4	5·8	8
Insurance	6·6	5	6·1	7
Educational services	6·5	6	6·5	5
Communications	5·4	7	7·0	3
Travel services	5·1	8	6·7	4
Food & related products	3·6	9	5·1	9
Aerospace	2·7	10	4·4	10
Construction	2·6	11	6·2	6
Apparel & related goods	1·6	12	2·9	12
Top 12 total	5·7		5·8	
Nominal GDP	4·8		5·5	

[†]Compound annual growth

Sources: Veronis Suhler & Associates; Wilkofsky Gruen Associates; US Department of Commerce

Faster growth outside media advertising

(1984 = 100)



Source: Veronis Suhler & Associates

Worldwide agency market share (%)

	Top ten advertising organisations	Global networks
1989	29·8	22·0
1990	32·4	24·1
1991	32·6	24·6
1992	32·9	24·7
1993	32·6	25·3
1994	33·1	25·7
1995	33·2	26·0
1996	33·3	28·2

Sources: Advertising Age; Merrill Lynch estimates

The long-term factors behind the growth in communications services

Founded only 12 years ago, WPP depends on two trends in the communications services industry.

First, communications services such as information and consultancy, public relations and public affairs and specialist communications will grow faster than advertising. Why? Well, our clients, both the major multinational and national companies, have become increasingly concerned with the rising real cost of television advertising, mostly network pricing, in major markets. Also, because those clients are increasingly looking for integration opportunities between various disciplines as they seek ways of increasing revenues and market share (or, more negatively, look at ways of reducing costs). All this has been reinforced by the growing fragmentation or personalisation of media. Although traditional network television will remain powerful, it will be less powerful.

Secondly, communications services will grow faster outside the US than inside. Now, this does not mean that you should commit hara-kiri if you are employed in US advertising. In fact in the last few years the US has become even more powerful, probably as a result of the collapse of Communism and extreme socialism in almost all parts of the world. In addition, the US is important not only because it accounts for almost half of most industries like our own but also because through its outstanding multinationals, it influences even greater expenditure around the world despite the move towards greater empowerment in most corporations. An interesting example of this is the investment banking and fund management industry:

Outlook for growth in advertising expenditures (%)

	1990	1991	1992	1993	1994	1995	1996	1997	1998E	1999E
Nominal US GDP	5·6	3·0	5·5	5·0	5·9	4·6	5·1	5·9	4·0	4·1
Real US GDP	1·2	(0·9)	2·7	2·3	3·5	2·0	2·8	3·8	2·6	2·5
Total US advertising	3·8	(1·8)	3·9	5·4	9·0	5·5-6·0	7·1	6·3	5·7	4·5
Newspaper advertising	(0·3)	(5·8)	1·0	4·5	7·5	6·0	5·8	8·2	5·8	4·8
Broadcast advertising	5·6	(3·5)	7·3	4·4	12·0	5·0	10·1	3·8	6·1	3·4
TV networks	3·0	(4·8)	6·9	1·5	7·5	5·0	10·0	2·0	5·5	1·0
TV stations	4·5	(6·2)	6·5	4·5	13·0	4·5-5·0	8·4	2·6	5·3	3·7
Magazine advertising	1·3	(4·1)	7·3	5·0	9·5	6·5	7·0	8·5	4·5	4·5
Total non-US advertising	11·8	5·5	7·5	(1·3)	9·7	15·0	3·0	6·0	5·0	5·0

Source: Merrill Lynch estimates

Top 20 advertising markets in 1997

Country/rank	Population (m)	Adspend ($m)	Adspend per capita ($)	Adspend % of GDP
1 USA	266·6	106,997	401·3	1·33
2 Japan	125·8	42,318	336·4	0·90
3 Germany	81·9	21,677	264·7	0·88
4 UK	58·3	17,993	308·6	1·47
5 France	58·4	10,439	178·8	0·66
6 Brazil	157·9	8,863	56·1	1·23
7 South Korea	45·5	7,561	166·2	1·41
8 Italy	57·4	6,861	119·5	0·55
9 Spain	39·3	4,992	127·0	0·82
10 Australia	18·3	4,878	266·6	1·19
11 Canada	30·0	4,638	154·6	0·75
12 Netherlands	15·5	3,706	239·1	0·90
13 China	1,221·5	3,603	2·9	0·37
14 Taiwan	21·5	3,528	164·1	1·19
15 Mexico	96·6	3,477	36·0	0·98
16 Argentina	35·2	3,073	87·3	0·96
17 Switzerland	7·1	2,720	383·1	0·91
18 Colombia	35·1	2,635	75·1	2·50
19 Hong Kong	6·3	2,428	385·4	1·40
20 Indonesia	193·8	2,118	10·9	0·84

US$ figures at current prices
1996 population figures
Source: Zenith

Business environment attractiveness

Quantitative assessment: selected countries

Source: EIU

who would have predicted the demise of the 'Warburg' brand within such a short period of time?

Why did it happen? Well, probably, the most significant factor was the lack of presence or franchise in the most powerful economy in the world. It is extremely difficult to compete against the Big Four US-based brands – Goldman Sachs, JP Morgan, Merrill Lynch and Morgan Stanley Dean Witter – unless you have an extremely strong US franchise. European based banks such as UBS, Deutsche Morgan Grenfell and HSBC are also finding this out. Big investments, probably by acquisition, have to be made in the US.

In our case US-influenced expenditure may be as high as two-thirds of worldwide spending. However, markets outside the US will continue to offer greater relative growth. In due course, Africa, Pakistan – and, when politics permit, Myanmar with a population of 45 million, Cuba with 11 million people and Central America with 33 million – will follow countries such as Vietnam, Colombia, Peru, South Africa, the Czech Republic, Hungary, Poland and Russia.

The recent problems in Asia Pacific are unlikely to disrupt this trend. There has been little evidence that short- to medium-term economic difficulties will discourage our clients from continuing to build their businesses there. After all, by 2025, approximately 65% of the world's population will live in Asia Pacific.

Are consumers and clients different in the 1990s as compared with the 1980s?

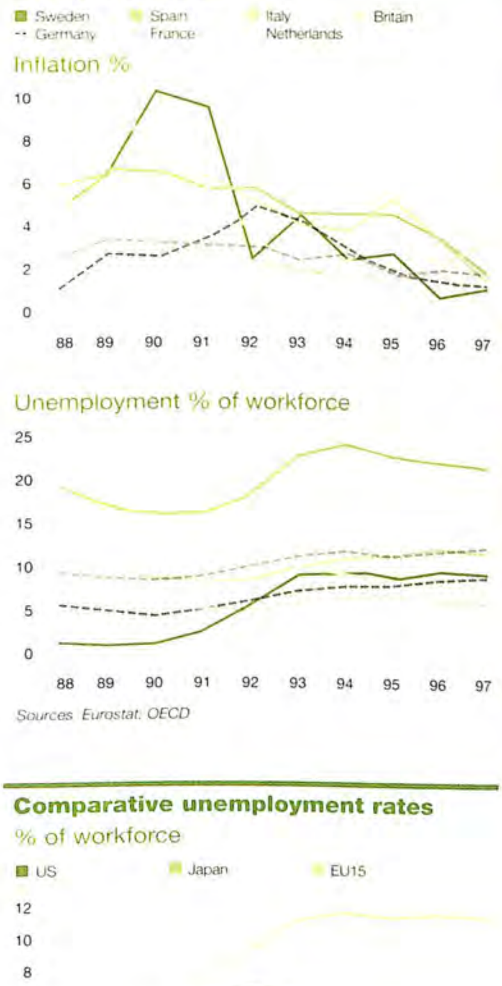
In the 1980s and before, we were all Keynesians, the key political and economic question being what level of inflation could be tolerated to ensure 'full' employment.

Today we are all Friedmanites, trying to determine what level of unemployment could be tolerated to ensure 'zero' inflation.

This Friedmanite approach may be difficult for governments to maintain particularly in advance of elections in, for example, France or Germany or in Latin American countries, where Prime Ministers or Presidents have removed monetarist Finance Ministers and embraced more populist policies.

However, this new approach does seem to have had an effect on both the consumer and our clients. As a result, both communities are much more cautious about expenditure and decision-making. Perhaps the severe recessionary squeeze of the early 1990s and fear of unemployment has made the consumer much more price/quality conscious. Certainly clients are far more cautious in their decision-making and as a result advertising expenditure may have turned from being a lead indicator to a lag indicator. In other words, clients will spend only when they are sure the economy has improved or will cut spending only when they are sure of a downturn – not in advance in either case.

European trends

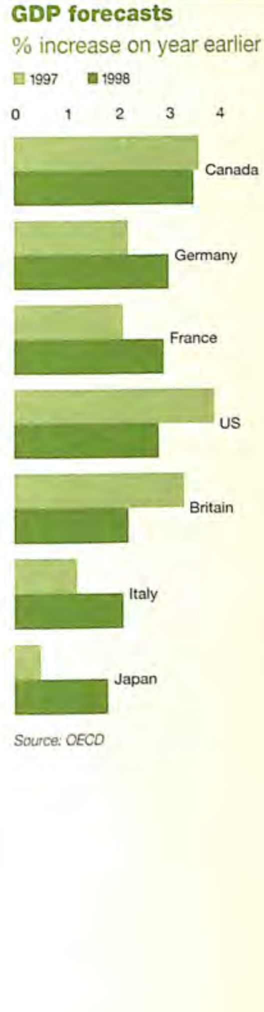


Sources: Eurostat; OECD

Comparative unemployment rates

Source: OECD

GDP forecasts



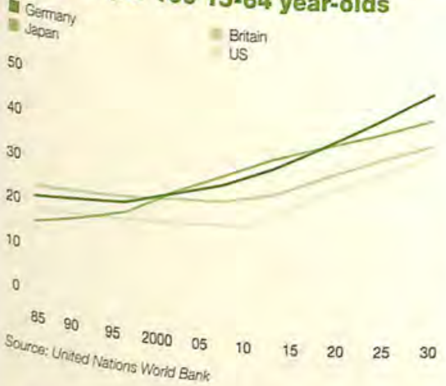
Source: OECD

If It Ain't Broke...Fix It

Companies in the communications services industry need to change, because our clients' needs are changing. And why is that? Because the markets they operate in are becoming increasingly competitive, and they are having to develop new strategies to deal with this.

Martin Sorrell traces this process from the factors that tend to increase competition, through our clients' response to these factors, to our own current thinking.

Over 65s per 100 15-64 year-olds



Source: United Nations World Bank

Latin American trade groups

Source: The Economist

Increasing competition

Low population growth

Most Chairmen and CEOs promise growth of at least 10% per annum in revenues, earnings per share or cash flow. As population growth, particularly in so-called developed countries, is significantly less than this, these objectives can be achieved only by expanding geographically and/or taking share from competitors.

Improved communications and free trade

Obviously, easier travel and electronic communications have made global competition a reality. However, the single biggest stimulant to economic activity has been the growth of the free trade areas. Not only in Europe, but in Latin America and Asia Pacific too. It would be a very backward step if protectionism was the response to the economic issues in Asia, as some have suggested.

Stable growth and low inflation

Both these underlying factors have been reinforced by more recent economic policies which have resulted in low rates of inflation, low interest rates and relatively stable growth. As the economic strength of the 1990s continues and the bull markets outrun historical precedent it may be that this relative stability can continue. In any event, such conditions cruelly expose the manufacturer pricing strategies of the inflationary 1980s when price increases could be easily passed on. In these new conditions the consumer has become increasingly price/quality conscious. The fact is: a little dose of inflation makes life much easier.

Technology transfer

It is very difficult to maintain a technological advantage. Competitors catch up quickly, even in what seem technologically sophisticated industries such as automobiles, computers or telecommunications. Even these industries are taking on the characteristics of the packaged-goods industries. As a result, product life cycles are shortening and brand cycles are lengthening. Product introduction lead times are being concertinaed and product testing and research have to be speeded up significantly.

Competition is further intensified by the growing tendency for hitherto fierce combatants to form strategic joint ventures or alliances – in such industries as automobiles, imaging and pharmaceuticals.

In such circumstances there is a tendency to play safe and not take risks. It is very difficult to encourage experimentation and resist the temptation to punish failure.

Growing retail power

Control of the channels of distribution is being increasingly concentrated in fewer retail hands. For example, in the UK, four companies control over half of food retailing, and the betting is that this trend will continue, as long as increased efficiencies are passed on to the consumer in the form of price reductions.

Retailers have reinforced this control through the developments of their own-label brands. The consumer used to regard these brands as shoddy or cheap and nasty (rather as we used to think of Japanese or Hong Kong merchandise), but in the last cycle in particular, retail brands have become strong brands. Often they have established different qualities at different price points. Many have become

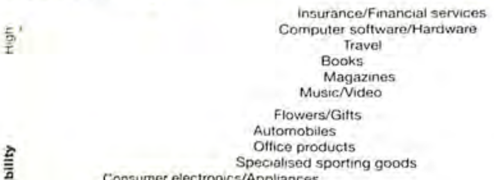
Growth of retail power: top 25 retailers worldwide

Rank/company	1997 stores	CAGR 95-97 (%)	1997 sales (Sbn)	CAGR 95-97 (%)
1 Wal-Mart	3,237	4	112	12
2 Metro†	3,789	5	43	5
3 Ito Yokado	13,116	4	40	3
4 Auchan†	1,827	109	33	41
5 Kmart	2,268	–4	32	–4
6 Rewe†	10,865	12	32	10
7 Carrefour	666	–6	30	9
8 Sears	3,810	8	30	5
9 Tesco	767	11	30	17
10 JC Penney	4,167	47	30	18
11 Aldi†	6,766	3	28	4
12 Intermarche†	10,669	82	28	13
13 Daiei†	9,104	9	28	2
14 Dayton Hudson	1,136	5	28	9
15 Promodes	5,350	2	27	3
16 Tengelmann†	7,793	1	27	3
17 Kroger	2,186	1	27	5
18 J. Sainsbury	1,029	10	26	5
19 Leclerc†	561	0	25	5
20 Ahold	3,281	16	25	26
21 Edeka†	3,212	0	24	0
22 Home Depot	632	22	24	22
23 Costco	277	5	23	10
24 Safeway	1,274	10	22	17
25 Jusco†	4,235	17	20	18

†MVI estimates

Source: Management Ventures

Web retailing



Source: Morgan Stanley Dean Witter

synonymous with the highest quality. Is there no end to their market penetration? Perhaps so, because there is some evidence to suggest that when retailers concentrate too much on retail brands, consumers feel that their choice is too restricted and overall sales suffer.

In the high inflationary 1980s manufacturers compounded the problem by predatory pricing, further widening the price differential with retail brands. The lower inflation 1990s have only highlighted the problem still further and enhanced the price/quality image of retail brands. In response, manufacturers have recently had to respond by making violent price reductions in categories such as cigarettes, cereals and other foods.

Control of or influencing the channels of distribution will become increasingly important as product differentiation becomes more difficult. At the same time the growth and development of electronic media will allow more effective one-to-one marketing, which will make relationship marketing through those channels of distribution more important. In response, some automobile manufacturers, for example, are considering ownership of dealerships in an attempt to forge closer relationships with the consumer and influence the purchase decision more effectively. In the same vein, why shouldn't a food manufacturer own some supermarkets – at least to observe the consumer more closely.

Puzzlingly, although the new electronic media give manufacturers an effective way of establishing a direct dialogue with the consumer, it is the retailer who has invested more aggressively in developing this area. This is all the more perplexing because often 50% of a manufacturer's cost can be in distribution. So why have manufacturers been so reticent? Partly it is because they fear upsetting the traditional distribution channels – the wholesalers and the retailers. It may also be due to the tendency for manufacturers to believe that their customers are the trade and not the consumer.

As a result of new technologies, we seem to be witnessing the development of new virtual manufacturers who offer products or services on demand with little or no inventory. In the personal computer industry we find Dell and Gateway selling over the telephone and computer directly to the business and home market whilst Amazon.com in books and Ameritrade and E*TRADE in financial services are further examples.

New competitors

No product or service category is safe from competition, and this trend is not confined to packaged goods. Brands that consumers trust are invading new categories. Even in our own industry who – a few years ago – would have thought that CAA, a tiny Hollywood-based talent agency, could outpitch McCann-Erickson for the Coca-Cola account? Or that rapacious management consultancies would embrace the language of marketing and branding to invade the communications services industry? Or that Swatch could produce a car with Mercedes Benz? Or that Marks & Spencer or Sainsbury or Boots could enter the financial services or healthcare market? Or that Samsung would enter the automobile market? Or that Virgin would enter the spirits, airline, cola, bridal and fitness markets?

Survey of manufacturing executives on their strategies for global expansion

Sources: Deloitte & Touche: Deloitte Consulting

Geographical expansion

Given this background, it is easy to see why our clients have expanded geographically. However, there is still a long way to go. Twenty or thirty years ago many American companies believed they were multinational. Even today the average American multinational still has only 20% of its business outside the US. Coca-Cola is the exception, not the rule, with 80% of its business outside America.

No wonder that our business continues to expand in Asia Pacific, despite recent problems, and in Latin America, despite the volatility. Central and Eastern Europe are following quickly, with Russia assuming 'Brazilian'-like importance in the region. Africa and the Middle East will rapidly follow, politics permitting.

Generally, if the world economy grows at an average of 3-4%, the US and Western Europe will grow at 2-3%, and Asia Pacific and Latin America at 6-7%.

Client strategies

How have our clients responded to this rapidly changing environment? Largely in three ways, or a mixture of them, depending on the state of the economic cycle.

Cost cutting

Particularly at the beginning of a cyclical downturn there is significant attention to costs. This is relatively easy, as companies have become bloated in the course of the previous upturn. There is ample scope for focusing the business and removing peripheral activities and for exploring the latest management fads, whether it be delayering, outsourcing, zero-based budgeting, process re-engineering, total quality management or whatever.

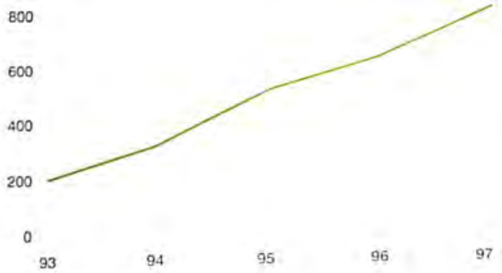
There is no doubt that competitive pressures will demand continuous attention to cost, and that the development of information technology will make the improvement of process easier. Old hierarchical command and control structures are being undermined by information being available to all. Network structures rather than functional or geographical structures will become the norm.

However, ultimately there is a finite limit to how far you can cut costs, whereas, in theory, there is no limit to how far you can increase revenues – at least until you reach 100% market share! So clients' thoughts turn to other areas, particularly as economic conditions improve.

Acquisitions

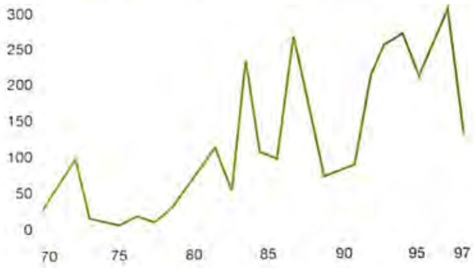
As the cycle starts to turn upwards, concerns about costs start to recede and quantum reductions become more difficult. Perhaps a boredom factor starts to operate

American M&A deals
(\$bn)



Source: The Economist

Number of IPOs
1970-1997



Source: The Economist

as well. Chairmen and Chief Executives turn their attentions to mergers and acquisitions. This is also driven by the lower costs of debt and equity capital as interest rates fall and equity markets rise.

The interesting point is that the cost of acquisitions seems to vary little at different points in the economic cycle, particularly in the packaged-goods sector. Prices seem to stick above 20 times earnings and at a significant premium to sales.

As this piece is being written, there is increasing concern about the level of stock markets on both sides of the Atlantic, and the scale and volume of mergers that are being contemplated, but not always consummated. Although markets are high on the basis of historical precedents, underlying economic conditions are more stable, the supply of investment funds is substantial, and many deals are nil premium mergers in the same or similar industries with economies based on cost reductions. Probably the biggest cause for concern is the impact of recent problems in Asia and the possibility of further economic instability in Japan.

Revenue and market share growth

At the top of the cycle, revenue growth also becomes more important. There were some signs that stock markets were according higher values to those companies that had higher organic growth rates – although lately stock prices have been increasingly driven by so-called momentum investing.

In any event, most national and multinational companies are increasingly focusing on market share growth, particularly as product and service differentiation becomes more difficult. To some extent this explains why advertising expenditures started to pick up in 1994, and why academics have started to produce torrents of books and articles on the newly discovered words 'revenue growth'.

Clearly, in this environment, the role of communications services will continue to expand. Product cycles shorten, and brand cycles lengthen: as clients seek revenue growth through market share growth or geographical expansion; as quantification of decision-making becomes more important; as network television becomes increasingly expensive; as new electronic media evolve, and the development of targeted marketing becomes easier; as traditional media fragment further; and as cost pressures reduce internal resources and clients become more dependent on outside advisers. All in all, a very attractive background.

The challenge for the communications services industry

There are several opportunities for the communications services industry, which could easily become threats if ignored.

The right structure

We pride ourselves, and indeed others see us, as being at the cutting edge of progress – creative, modern, youthful, full of new ideas. Nothing could be further from the truth. In the way we and our competitors run our advertising businesses, we are probably more conservative than lawyers, investment bankers and, dare I say it, even actuaries.

Some of WPP's businesses, particularly some of our specialist communications services businesses, have flatter, more horizontally or client driven structures. Usually these are first-generation firms working in fast-growing niche areas. However, our larger, more institutional businesses tend to remain rooted in the past, with vertical, functionally driven, silo-like structures that have not changed for decades. This, despite the fact that most of our clients have gone through significant structural reorganisation that has resulted in dramatic organisational changes and dramatic reductions in headcounts. Often people numbers have been reduced by as much as 50%. In our own industry there are squeals of displeasure if numbers are reduced at all.

Unfortunately, they change only when forced to do so, usually as a result of a disaster. 'If it ain't broke, don't fix it.'

Advertising agency structures, in particular, remain rooted in the past. Organagrams remain the same, with perhaps a change in the names of a

Some WPP test bed activities

Developing cross-functional teams	Stemming staff turnover
Installing time accounting systems	Streamlining approvals processes
Devolving financial responsibilities	Reducing management costs
Selling support services	Sharing and pooling resources
Streamlining client portfolios	Managing property effectively
Promoting strategic planning function	Highlighting agency inefficiencies
Responding to client changes	Exploiting best practice and efficient service functions
Challenging client fee structures	Redefining incentives
Eliminating unprofitable accounts	Investing in IT

department from editorial publicity to creative. They remain predominantly organised by geography first, function second and client only third. Functionally driven, an account handling department relates to a strategic planning department, or the creative department, or the media department, or finance function. Clearly the opportunities for miscommunication or inaccurate briefing and the development of turf or territorial barriers are considerable.

Like other institutions in other fields, our institutions have a strong instinct for survival, particularly at times of crisis. In addition, one of their considerable strengths is an ability to observe changes at their clients. Most of our clients have gone through considerable strategic and structural change and are now seeking economies, not of scale, but of knowledge or learning. There really is no point in reinventing the wheel unnecessarily. It is essential to encourage everyone to learn from each other, particularly when new technology enables you to do so more easily.

As a result, agencies will have to radically change their structures, inverting the previous emphasis. They will be organised by client first, by function second, and lastly by geography. These changes will call upon the skills of the organisation and methods experts, demanding a meticulous examination of process and of the way, for example, that creative work is developed both at the client and at the agency. Once the process has been analysed, the appropriate organisational structure can be devised.

Many large packaged-goods clients bemoan the fact that their creative work is average. A lot of this may be due to the fact that the process of producing their work is poor and too complex, with far too many layers and people involved. A committee tends to produce a camel.

It is also apparent that several management consultancies are starting to turn their attention to the marketing function. Having exhausted the opportunities for re-engineering on the 'supply' side in production and distribution, they are focusing on the 'demand' side. After all, marketing costs can often be the largest single cost after manufacturing costs in the client's income statement.

At WPP we now have 21 test beds that are examining ways of improving our process. These test beds, which span our eight profit centres, cover global client business units, or countries, or cities or offices. The aim is to analyse and improve the business process and examine profitability. Better work, faster.

To some, filling in time sheets and minutely analysing the business process may not seem like an appropriate part of advertising. However, unless we analyse our revenue streams more effectively, our resource allocation, our processes and our organisational structures will not adequately help our clients in dealing with the competitive pressures they are subject to.

Interestingly in recent remuneration negotiations with some of our largest clients, we have agreed that we will jointly review our organisational structures to improve the creative process – to make it more effective, quicker in response and more efficient. Both client and agency will benefit as a result.

The right size: big or small

Closely related to the issue of structure is the issue of size. The common conception is that the larger a business is, the less creative it is. As a result, smaller agencies attract clients on the basis of creative sparkiness and speed of response. On the other hand, clients also look for breadth and depth of functional and geographic resources and co-ordination, which only large agencies can provide. You might assume, then, that a mid-size agency would be the perfect compromise solution; but this isn't so.

Currently, it seems that the market will polarise with the very big at one end, and the very small at the other. Larger agencies continue to increase their market share as clients continue to consolidate their rosters. Recent consolidations include IBM, De Beers, Eastman Kodak, SmithKline Beecham, Kimberly-Clark Scott, Ford, Mattel, Kraft Foods, American Express (all good for us), Bayer, Reckitt & Colman, Colgate-Palmolive (which did not affect us), and S.C. Johnson, Nabisco, Motorola, Citibank (bad for us).

At the same time the larger agencies are consolidating their position through acquisition. The roll-call of mid-size acquisitions lengthens almost weekly. Hill Holliday, Campbell Mithun Esty and GGT have followed TBWA, Chiat Day, Scali McCabe Sloves, Ketchum and Ammirati & Puris into the hands of the big boys. This despite the protestations of their iconoclastic and idiosyncratic owners that they would never do so. The reasons? Well, money is a perfectly respectable one. There were others too, such as the need to provide greater geographical and functional resources to clients. However, there remai

Continued consolidation of agency rosters

Company	Previous number of agencies	Current number of agencies
Bayer	48	3
Colgate	n/a	1
IBM	40+	1
Reckitt & Colman	35+	1
S.C. Johnson	28	2
Kodak	4	1
De Beers	2	1
SmithKline Beecham	n/a	2

Source: Trade press

Consolidation of advertising industry ownership of top 30 US agency brands

Holding company	Agencies	Cumulative
Omnicom	7	7
Interpublic	5	12
WPP	3	15
Y&R	2	17
True North	2	19
Cordiant	1	20
Saatchi & Saatchi	1	21
Havas	1	22
Grey	1	23
Independents	7	30

Source: Trade press

Ten largest advertising agencies in US

1	J. Walter Thompson Co
2	Grey Advertising
3	Leo Burnett & Co
4	McCann-Erickson Worldwide
5	Foote, Cone & Belding
6	BBDO Worldwide
7	Young & Rubicam
8	Bozell Worldwide
9	DDB Needham Worldwide
10	Ogilvy & Mather Worldwide

Source: Merrill Lynch

the question of whether the large financially orientated holding companies can adequately absorb these entrepreneurially driven, first-generation, one-centre businesses, particularly when they are left on their own.

Indeed the merger and acquisition boom of the 1990s in the communications services business is very different to that of the 1980s. In the 1980s the rapacious acquirers were the Europeans, with the Americans complaining of unlevel playing fields, the iniquities of UK GAAP and the weakness of sterling. Today the Americans have become the gobblers, consuming everything in sight. The question remains whether investment or financially based holding companies can successfully manage these large groups in the absence of a strategy or vision that clearly articulates and delivers added value to clients and people. Whilst buoyant stock markets and real markets cover up these inadequacies, bear markets and recessions cruelly expose them.

At the smaller end of the scale, in a healthy Darwinian-type process, individuals or groups of individuals continue to break off from bigger groups to form new agencies. Nowadays, however, even these look for larger agency connections to deliver broader-based resources in the media or geographic areas. For example, in a surprise move Leo Burnett acquired 49% of Bartle Bogle Hegarty (BBH). For BBH this enabled the principals to capitalise on their hard work, provide an international media resource for their clients, and retain control at the same time as providing an ultimate exit route. Similarly, other creative 'hot shops' such as Weiden & Kennedy, M & C Saatchi, Kirshenbaum Bond & Partners, HHCL and Batey have sought international capabilities and links. Following all this, the market share of the major agencies has continued to grow and as a result only 15 agencies controlled by nine holding companies operate in more than 40 countries. In addition to Japan and India, where one or two agencies or groups have developed dominant shares, there appears to be an oligopoly of international agencies developing which may result in a modification of client conflict policies. This is most clearly seen in the difficult agency selection decisions that have been taken recently by Mars and Bristol-Myers. In addition, some clients such as Procter & Gamble may be finding that their existing agency resources are too limited or fragile.

In contrast to all this, clients such as Coca-Cola, have splintered their agency rosters, relying on 30 or more agencies or idea factories to produce ideas whilst the client defines and implements the strategy. It will be interesting to see whether this structure is maintained following the departure of its initiator, Sergio Zyman, or whether this change of control represents an opportunity for McCann-Erickson to reverse the CAA-Ovitz inspired invasion.

In essence, big agencies have to behave like small ones, demonstrating creative inspiration, flexibility and responsiveness. Small agencies, on the other hand, have to demonstrate resources and co-ordination. The issues facing bigger agencies are no different to those facing their larger clients, who also have to wrestle with the managerial complications and challenges of size and make sure they do not crush the entrepreneurial spirit of their companies.

Ten largest advertising agencies in Europe

1	Euro RSCG
2	Publicis
3	McCann-Erickson Worldwide
4	Ogilvy & Mather Worldwide
5	Young & Rubicam
6	DDB Needham Worldwide
7	Grey Advertising
8	BBDO Worldwide
9	J. Walter Thompson Co
10	Ammirati Puris Lintas

Source: Merrill Lynch

Ten largest advertising agencies in Asia

1	Dentsu
2	Hakuhodo
3	McCann-Erickson Worldwide
4	J. Walter Thompson Co
5	Ogilvy & Mather Worldwide
6	Asatsu
7	Daiko
8	Dentsu, Young & Rubicam Partnership
9	Tokyu
10	Bates Worldwide

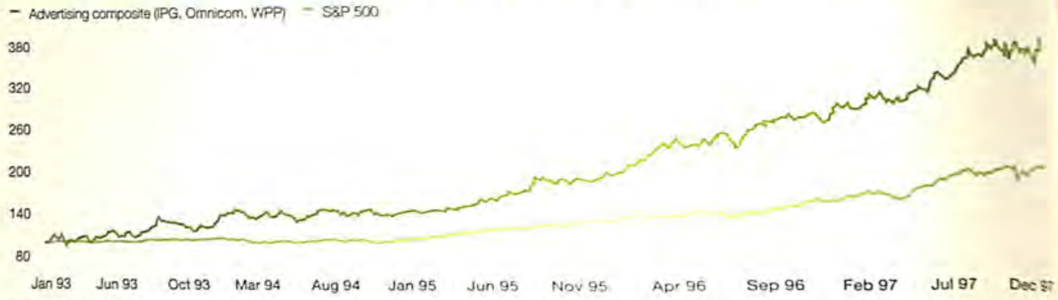
Source: Advertising Age

Ten largest advertising agencies in Latin America

1	McCann-Erickson Worldwide
2	J. Walter Thompson Co
3	Young & Rubicam
4	Ogilvy & Mather Worldwide
5	Leo Burnett
6	BBDO Worldwide
7	Ammirati Puris Lintas
8	Foote, Cone & Belding
9	Grey Advertising
10	Saatchi & Saatchi Advertising

Source: Merrill Lynch

Share price performance of 'The Big 3' advertising groups (1993-1997)



Source: Merrill Lynch

The big five

Most business school professors talk about consolidation being inevitable in most industries. With global oversupply in most sectors, including the communications services industry, it is probably inevitable that our industry will become increasingly concentrated around five or so groups. Currently it seems that these will be Omnicom, IPG, Young & Rubicam, Dentsu and WPP. Both Young & Rubicam and Dentsu will probably join the Big Five as a result of their decisions to go public to fund their organic growth and growth by acquisition. On the other hand, Leo Burnett may have ruled themselves out by staying private.

Most other groups now find themselves in a difficult position. The long-term future of Grey Advertising is unsure given its ownership structure and alignment with Procter & Gamble. Although True North has doubled its size through the acquisition of Bozell, it remains a US-orientated business with a limited network. Cordiant may have demerged into three parts, but each part is already trying to consolidate its position into a larger entity. The McManus group, which includes DMB&B and N.W. Ayer, still lacks scale and resource as a result of its private status. Havas Advertising is openly looking to merge with an Anglo-Saxon advertising or media partner with a strong US business. Publicis, now disengaged from True North, its natural partner, and having solved its shareholding issues, still faces the challenge of building a global network. The major Japanese agencies are for the first time willing to consider selling equity to gaijin either to enable them to build international networks or to satisfy their lenders by increasing equity and reducing debt in their businesses. The misfortunes that befell GGT and BDDP are testimony to these pressures.

Never has the industry been in such a state of turmoil, from an ownership point of view.

The right people

A critical factor facing the communications services industry is the recruitment of the best and the brightest. Many in the industry complain that they are unable to attract bright young things. This is not a new phenomenon. Forty years or so ago, David Ogilvy remarked on his friend Marvin Bower's ability at McKinsey & Co to consistently recruit the best first and second degree graduates.

The reason is simple. We do not try hard enough – certainly not as hard as investment banking or consultancy firms. Almost a third to a half of most graduating classes joins these industries. At Harvard Business School last year, one-quarter of the graduating MBA class entered from investment banking and management consulting, and one-half after graduating will join these industries. The most senior partners of McKinsey & Co, Goldman Sachs and Arthur Andersen are intimately involved in the recruitment process. Not surprising when you think that Arthur Andersen and Andersen Consulting have to hire two Booz Allens each year. Andersen, in its quest for young talent, is rumoured to have done deals with lesser known but high-quality universities in the US, guaranteeing to take certain numbers of graduates in return for being guided by the faculties to the best talent.

In our industry the recruitment process is delegated down the line. Surprising when you think of the amount of senior management time that is devoted to mergers and acquisitions and capital investment. WPP invested approximately $100 million in acquisitions and $60 million on capital expenditure last year, whilst it invested almost $2 billion in people.

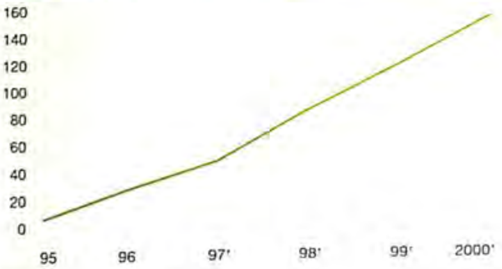
This lukewarm approach permeates how we use bright, young people too. In investment banking or consulting, the youngsters are given their head and responsibility if they can handle it. In our industry, many people are protective of their turf or client relationships, and the last thing they want are bright people invading their territory.

This should not be the case. The communications services industry is very similar to those industries. In the same way it offers an unparalleled view of a wide variety of industries across the globe. It offers the opportunity of witnessing at first hand the significant strategic and structural changes that are taking place in key manufacturing and services sectors. Best of all it is fast-paced and fun, with ample opportunity for high achievers to receive instant feed back. All in all, an extremely agreeable way of earning a living. Hopefully the WPP Fellowship Program will go some way to redressing the balance.

The new media – on their way?

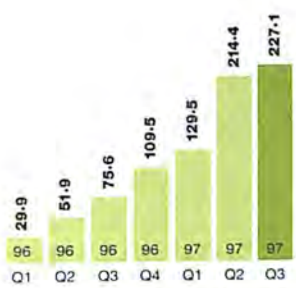
Like others, the new media industry has been a roller coaster. Often it is better to travel than arrive. At first, initial public offerings surged to stratospheric valuation and sales multiples – there weren't any earnings for P/E ratios. Losses were better than profits. Soon reality set in, and valuations fell, particularly as the new media companies started to use their pap

Web users (in millions)



†projected
Source: VPI/Corbis-Bellman

Quarterly web advertising ($m)



Source: IAB/Coopers & Lybrand Internet Revenue Report

Net income as % of revenue

Source: Morgan Stanley Dean Witter

Internet hosts† per 1000 population
January 1998

†includes all hosts sending '.com', '.net' and '.org', which exaggerates some numbers
Source: Network Wizards

to acquire traditional marketing companies. Now we are seeing another surge in valuations as the second wave of probably stronger companies develops.

Interactive media are nothing new. When David Ogilvy founded his agency almost 50 years ago, he recognised the importance of interactive communication or direct marketing. Hence OgilvyOne, as it is now known, is the most powerful direct marketing brand in the world. You could argue that almost 80% of advertising in most newspapers is interactive in some sense in that it involves some form of customer response mechanism – a coupon, a phone number, a classified ad box number. So it's nothing new. What is new is the power of the technology, the effectiveness of reaching consumers in a targeted way and the relative ease of measurement.

Interactive advertising totalled $25 million in the US in 1995 and probably double that worldwide. In 1996 it probably was $300 million in the US and $600 million around the globe. Last year it seems to have totalled $900 million in the US and a similar amount outside. By 2000, most believe it will total at least $2 billion in the US alone. A rapid growth rate, but still relatively small in comparison to almost $500 billion of communications services expenditure currently in the US alone.

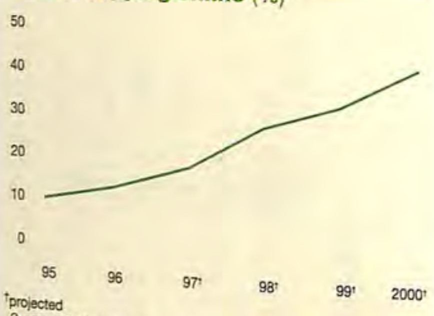
Indeed, for the first time, some of the computer hardware and software manufacturers are expressing some disappointment with the growth of interactive advertising. At the Davos World Economic Forum in February of this year, Bill Gates, among others, voiced this concern. Although Dell Computer may sell over $1 billion of product over the net, and E*TRADE, the electronic stock market system, may be profitable, new electronic icons such as Amazon.com and Peapod lose money and are already facing increasing competition. Maybe there is something structurally wrong with the Internet in that it delivers valuable information for free – information that the consumer would be willing to pay for. Maybe its strength is its weakness in that it reaches individuals and is relatively expensive. Mass communication gives the advertiser the opportunity to amortise the cost over many eyeballs. Perhaps at the beginning there should have been a charging mechanism. After all, it is easier to bring down prices, rather than initiate price increases.

While many new ventures will fundamentally change existing business models and competitors, there are several issues hindering the development of the medium. First, traditional media are evaluated by cost per thousand. The new electronic media are very effective in reaching a defined audience but they are relatively very expensive. There will have to be a switch in evaluation techniques to effective cost per thousand.

Secondly, traditional communications services businesses tend to be run by late forty- to fifty-year-olds (like me), who tend to resist change particularly when things are going well. In addition, although they may have an understanding of the power of the new technology and its implications, they are not facile with the software.

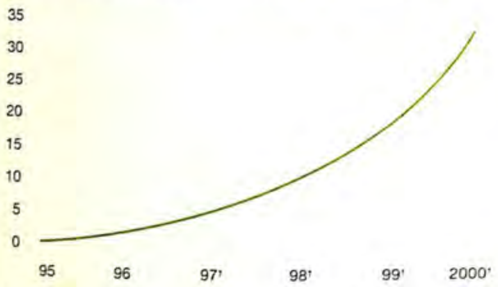
Development of this industry is probably a generational phenomenon, and the next generation of management who will be much more at home with the new technologies will push their development much more quickly. (It is amazing how quickly three- or four-year-olds can learn to use a personal computer.)

Users shopping online (%)



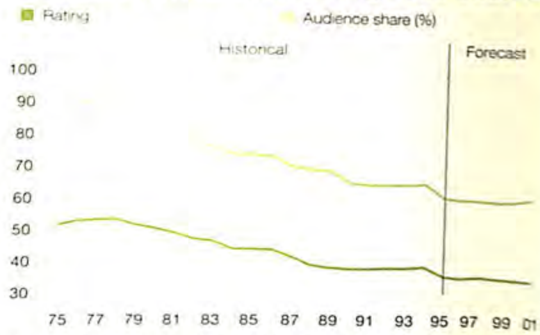
†projected
Source: VPI/Corbis-Bellman

Total online retail sales (in billions)



†projected
Source: VPI/Corbis-Bellman

Network prime-time ratings and shares



Sources: Veronis Suhler & Associates; Wilkofsky Gruen Associates; A. C. Nielsen

Finally, most new media thinking and development are confined to the media departments of advertising agencies. There are few creatives who spend significant time in this area. As there is already more advertising clutter on the Internet than on network television, clearly there is a major creative challenge to capture the consumer's attention.

Concentration of media ownership and the increasing cost of network television

There has been a significant increase in the concentration of media ownership. Not only does this cause some political concerns in some minds, but it may have significant impact on media pricing. The *Financial Times'* Lex column recently drew attention to the profitability problems and consequent poor stock market performance that some media owners were experiencing in America. If the oligopoly of Murdoch's News Corporation, Time Warner, Seagram, Disney and Viacom, could increase their prices still further their profitability would increase significantly.

This situation is not confined to the mature, slower growth markets. In the faster growing, so-called emerging markets, the situation is similar, with the Marinho and Azcarraga families dominating Brazil and Mexico (although Salinas is giving the latter a good run for their money), Cisneros in Venezuela, and Malone and Hughes also extending their influence in Latin America, whilst Murdoch is not only interested in Latin America but Asia Pacific too.

In America, Westinghouse has significant monopoly power in radio with control of 50-70% of some radio markets. Indeed the FTC has investigated some examples of cross-selling of radio and television spots by Westinghouse. In the UK, Granada, Carlton and United dominate network television, controlling two-thirds of the market.

When this concentration is combined with strong economic conditions, the impact on prices can be severe, particularly as the supply of television advertising time is fixed. In the US and UK alone, the real cost of television advertising has probably increased by 10%, partly as a result of increased prices and partly as a result of falling audiences. For major advertisers like Procter & Gamble and Unilever who spend $3-4 billion a year on media advertising, with most of it on television, this means a reduction in efficiency of $300-400 million per annum – very significant in the context of their P&Ls. If other inputs such as labour or capital increased their real prices by 10% per annum they would be shown the door, and significant reductions in their use would be made. There are signs of this with the increased market share of other media such as radio, outdoor and new media.

The problem has been further compounded by the quality of, and monopoly, surrounding audience measurement, particularly in the US. At the same time as prices have been rising there has been increasing concern that audience measurement techniques have been overstating audience levels.

The response to this has to be a similar counter-balancing concentration of media buying points: not necessarily in a confrontational way, but by working with the media owners to harness research, programming, sponsorship, barter and syndication to improve our clients' return on their advertising investments. On the media owner's side they, in turn, are looking for opportunities to leverage their position in the mature markets to open up the faster growing markets. There is a deal to be done between clients and media owners whereby the owners trade time in the higher priced mature markets for position in the lower priced rapidly growing markets where the owners want greater penetration. Murdoch has already started to organise globally to achieve this. Clearly, the possibility of achieving this

Global top market research companies

1	A.C. Nielsen	8	IPSOS
2	Cognizant	9	Arbitron
	– IMS	10	PMS/Source Info
	– NMR		– PMSI
3	Kantar		– SI
	– RI	11	Westat
	– MBI	12	Video Research
	– KMR	13	Maritz
	– BMRB	14	NOP Info
	– Goldfarb	15	NFO
4	IRI	16	NPD
5	Sofres/Taylor Nelson AGB	17	Marketing Intelligence
6	GfK	18	Market Facts
7	Infratest Burke	19	Audits & Surveys

Source Honomichl/Marketing News

depends to a major extent on the ability of the media owners to develop a centrally driven organisation, that can co-ordinate their selling efforts across geographies and media. Murdoch (through his recently-initiated News Corp One) and Disney may well be able to do this, but it may be more difficult for more fragmented organisations like Time Warner and Viacom.

In this climate it is not surprising we have seen the growth of media independents such as Carat and CIA and the full service agencies' responses such as Initiative Media, Optimedia and our own MindShare. Indeed there have even been strategic alliances between aggressive competitors such as The Media Partnership (between Omnicom and WPP), Mediapolis (between Havas and Young & Rubicam) and the mooted possibility of Televest and Leo Burnett. In the longer term it may well be that there will be a fusion between the ambitious media independents and the defensive full service agencies, such as has been recently rumoured between Havas and Aegis.

One other complication: the fragmentation of media, both as a result of the development of new media and the lowering of the cost of producing all media, has resulted in increased complexity in media selection. Creative messages have to be crafted and developed across far more media vehicles. As a result, there is a need, if anything, for more co-ordination between creative and media departments rather than a split between them. As demands for integrated marketing develop, creative and media will have to work more closely together, just as the industry trend is to split them into separate companies – a contradictory situation that is not easy to manage.

The new global communications services

All of us look for, or worry about, seismic changes that will radically reshape the nature of our industry. There are several of these that are happening or may be happening in the communications services industry.

Probably the single most important change of this nature is the globalisation of the market research industry, or what we at WPP have termed information and consultancy. Kantar, the internal parent company for WPP's interests in this industry, has grown its revenues by a compound like-for-like rate of 13% per annum over the last six years, despite the recession of the early 1990s. It has also grown its relationships with most of its top ten clients from one or two countries a few years ago to as many as 30 or 40 countries today.

There are a number of reasons for this. All clients, as they expand geographically are looking for common languages to compare and contrast experiences across borders. In essence they are looking for economies of knowledge or experience. In addition, as the pace of competition quickens and differentiation becomes more difficult, intuitive decision-making becomes more difficult, and even the most entrepreneurially inclined seek dependable data to justify their actions. Finally, as costs have been squeezed, many clients have reduced or disbanded their internal market research departments and come to rely on outside suppliers for advice in this area. This may be misguided, as an understanding of their consumer or customer may be a core competence that could offer a competitive advantage.

In the next few years the market research industry itself may face further fundamental change. Many clients, particularly the CEOs of major clients, feel that market research techniques are too complicated and too slow in delivering actionable results. Often before a questionnaire has been prepared, completed, analysed and conclusions drawn, the problem has changed. The new technologies will speed the process considerably, by use of Internet-based panels that respond instantaneously to questions and which will be driven more by actionable results than statistical techniques. As a result, market research will become even more useful in practice.

Furthermore, as relationship, or one-to-one or direct marketing becomes more important, database management and data mining will grow in importance and the two industries of direct marketing and market research will converge. Through data mining, clients will be able to identify what products or services will encourage customer retention and the more profitable development of existing clients or heavy users. In the old days this would have been done by slower market research techniques.

Market research, like other communications services, will have to move up the value chain into the Chief Executive's office with the development of brand valuation-based products such as Millward Brown's Brand Dynamics or Research International's Equity Engine. These enable clients to measure brand values and the impact of changes in the perception of a brand on market shares and volumes, and hence in terms of dollars and cents.

Finally, as media buying and selling points grow, and media fragment still further, there will be increasing added value in analytical, proprietary media research products that optimise media investments.

Similar changes are engulfing the

Top 10 global identity firms

	Design consultancy	Fee income
1	Enterprise Identity Group	£54·90m
2	Wolff Olins	£11·80m
3	Diefenbach Elkins	£10·10m
4	Siegel & Gale	£7·74m
5	Interbrand Newell and Sorrell†	£7·50m
6	Luxon Carrá	£3·54m
7	Conran Design Group	£3·50m
8	The Brand Union	£3·44m
9	MetaDesign	£3·21m
10	Minale Tattersfield Design Strategy	£2·76m

†No relation
Source: *Design Week*

Survey results of agency compensation arrangement (%)

	15% commission	Other commission	Labour-based fee	Other
1976	68	15	17	0
1979	57	18	25	0
1983	52	19	29	0
1986	43	24	30	3
1989	35	29	24	12
1992	33	26	32	9
1995	14	45	35	6

Source: *Association of National Advertisers*

corporate identity business and perhaps the public relations and public affairs businesses. With geographical expansion, clients seek common identities. As worldwide mergers and acquisitions intensify, clients try to identify common identities and approaches. As differentiation becomes more and more difficult, clients seek intangible ways of identifying competitive differences. In these circumstances corporate brands will become more and more important, as the consumer will increasingly feel comfortable and confident with brands that he or she can trust. WPP's response to this is the creation of its Enterprise Identity Group, which hitherto was five separate design and identity companies in San Francisco, New York, London, Hong Kong and Taipei.

Although public relations and public affairs remain among the most local of WPP's businesses, there is some evidence of increased global, or at least multinational co-ordination by clients. If there are not worldwide public relations and public affairs client executives, as in the cases of advertising, market research and corporate identity, there is increasing co-ordination in these areas between the centre, regional and country units. This was very evident when Hill and Knowlton and Ogilvy Public Relations Worldwide combined with Cunningham Communications (outside the WPP Group) to win the multi-million dollar Oracle account.

Moving up the value chain

As a result of increasing competitive pressure, the communications services industry is becoming more and more executional. Creative hip-shooting has become more important in the short term than strategic brand development. We are being pushed down the value chain.

At the same time the management consultants such as McKinsey & Co have started to suggest that clients, particularly packaged-goods clients are spending too much on advertising, particularly in the mature, developed markets. Given the size of advertising expenditure, the difficulty of measuring it and its significance in proportion to sales or profits, clients have listened. Realising that all business strategy is really marketing strategy, starting with the consumer and working backwards, consultants have targeted the more touchy feely arts of marketing. They have begun to advise on the size and optimisation of marketing budgets.

This represents a major opportunity for the communications services industry to move up the value chain. From the work that many members of the WPP Group have completed with major management consultancies, it is clear that they are uncomfortable with the intangible and non-quantitative nature of marketing and the more creative and subjective skills required. Although they have developed strong analytical skills and sophisticated language, they are uncomfortable in delivering actionable solutions and implementing them.

WPP needs to develop its strategic marketing capabilities in one of several ways. Either its advertising agencies should develop their existing planning capabilities and charge separately for them. Or The Henley Centre should develop its existing consultancy capability both in the UK and outside. Or a new practice should be developed either at the parent company or within the Specialist Communications Group to deliver this capability. This could be developed by starting the unit from scratch through hiring, or by limited acquisition.

How we are paid

Over recent years, fee-based remuneration has increased significantly. Fees represent approximately 30% of WPP's advertising business, and about two-thirds of its overall business, as almost all its information and consultancy, public relations and public affairs and specialist communications businesses are fee-driven. As we are basically in the business of managing and selling time this is no bad thing. Apart from producing even flows of income it also encourages greater discipline.

However, many advertising clients still retain the commission system. Recent reviews with major clients such as Kraft Foods, Nestlé and Unilever resulted in commission levels of approximately 13% with media buying accounting for 1·5-2% of this. Success commissions of up to a further 4%, making a total of 17%, have been added. These success commissions are often based on achievement of profitability, sales, market share or agency evaluation targets. Such results are encouraging as it does seem to indicate an appreciation of the role agencies have in building and differentiating brands. It may also indicate the growing concern clients have in being able to enforce rigid conflict policies.

The message from the world's biggest advertiser

Many interesting lessons can be learned from observing the marketing behaviour of the world's biggest advertiser, Procter & Gamble, which spends approximately $3.5 billion per annum on advertising. Of this, the lions's share is spent on network television.

A few years ago there were sensational headlines in business newspapers suggesting that Procter would be reducing its advertising expenditures. Whilst it was true that Procter wanted to reduce its advertising to sales ratio, those of you with a mathematical frame of mind will know that whether this reduces the absolute level of advertising depends on what happens to sales. It is interesting to see what has actually been happening.

In the high inflation 1980s it was relatively easy for manufacturers to pass on price increases to the consumer as money wages were rising rapidly. In addition, retail or own-label brands offered only a low quality alternative. Manufacturers also sought greater volumes by stretching or extending their brands through line extensions or new product introductions.

In the lower inflation, more stable growth, higher unemployment 1990s, this was no longer possible. Worried by the possibility of unemployment, the consumer became more concerned about the price/quality relationship and was unwilling to pay a premium of up to 50% for manufacturer branded goods. Retailers introduced higher quality brands often at different price points. In the last cycle these brands became real brands in their own right. At the same time manufacturers began to question the wisdom of pouring more and more money into trade promotion to secure distribution. All this seemed to do was encourage price loyalty and only when the promotion was operating. In addition, the ebb and flow of demand caused great strain on the capacities of manufacturing and distribution channels.

As a result, manufacturers like Procter have refined their strategies. First, they have reduced their prices and the differentials with retailer brands. Secondly, through programs such as everyday low pricing, they have funded these price cuts by reducing trade promotion, by reducing the number of lines and concentrating on leading brands. Finally, media advertising has been increasingly focused on core brands. For example, Procter increased its advertising on its top 10 US brands by 16% in 1996 – increased attention to market leaders. At the same time couponing activity has been reduced.

More recently Procter has been turning its attention to the increasing real cost of media advertising, and in particular network television advertising. Not only has the company been experimenting with other media such as cable and the new electronic variety, it has decided to concentrate all its US media buying in one of its agencies to concentrate its media power. Furthermore it has decided to reduce the commission rate of its non-media agencies and possibly move to a fee basis. In compensation it will probably focus more and more of its expenditure in its four key global agency partners. Procter is an interesting microcosm of the important events taking place in the industry.

All this has resulted in a reversal of the trend in recent years to increased promotional spending. At the same time the private label or store brand share of market has topped out, and media advertising is increasing. This seems to suggest a resurgence in the importance of brand building and integrated marketing. However, this change of emphasis has not been tested in the cold winds of recession. We do not know yet how much of this change in thinking is secular or cyclical: 1997 saw continuation of the same behaviour as in 1995 and 1996, but we will have to go through a cyclical downturn to see if this new approach can be maintained.

How we're doing

Operating and financial review

Turnover was up 2·9% to £7·287 billion, revenues up 3·3% to £1·747 billion and gross profit up 2·2% to £1·469 billion. On a constant currency basis, revenues were up 11·2%.

Operating profit rose by almost 13% to £205·5 million from £182·4 million and by 23% on a constant currency basis. Profit before tax rose almost 16% to £177·4 million from £153·3 million, chiefly reflecting improved profitability and cash flow and a reduction in interest costs. On a constant currency basis, pre-tax profits were up 28% as sterling strengthened on average by 9% against the dollar and most of the Group's key trading currencies.

The Group tax rate on profits was 32%, an improvement on the previous year's 33%. This reflects the continued positive impact of the Group's tax restructuring.

Fully diluted earnings per share rose almost 16% to 15·4p from 13·3p. In constant currency, earnings per share rose 28%. The Board recommends an increase of 25% in the final dividend to 1·43p net per share, which will be paid in the form of a foreign income dividend, making a total of 2·13p net per share for 1997, a 25% increase over 1996.

Operating margins

Operating margins rose by 1% for the fifth year in a row, up 1% to 11·8% and by 1·2% on a constant currency basis. The gap between the very best-performing competition and ourselves continues to narrow.

Operating margins before short- and long-term incentive payments (totalling £52 million in 1997) rose to 14·9% from 14·1%. Operating costs rose by 0·7% and by 9·0% in constant currency.

The Group's staff cost to revenue ratio fell by 1·2% to 49·1% from 50·3%. As the Group's staff costs to revenue ratio continues to improve, variable staff costs as a proportion of total staff costs have improved over recent years to 11·0% and as a proportion of revenues to 5·4%. As a result enhanced flexibility continues to be introduced into the cost structure.

The task of eliminating surplus property costs has been achieved over the last six years. Over 601,000 sq ft with a cash cost of approximately £14 million ($22 million) per annum has been sub-let or absorbed.

Like-for-like performance

A significant proportion of the Group's revenues, operating profits and cash flows (approximately 80-90%) are in currencies other than sterling. As there are few instances of significant cross-border trading, commercial exposures to foreign exchange fluctuations are limited.

The reported earnings of the Group, however, are affected by the value of sterling relative to overseas currencies, the most significant being the US dollar, the Dutch guilder, French franc, German mark, Spanish peseta and Italian lira in Europe, and the Australian dollar, Hong Kong dollar, Japanese yen and Singapore dollar in Asia Pacific. The Group does not hedge reported earnings, although our predominantly dollar denominated debt is serviced primarily by dollar earnings in the US. As a result the Group analyses and reports its performance on a like-for-like basis (excluding the impact of currencies and acquisitions) wherever relevant.

As mentioned above, on a constant currency basis, revenues rose by 11·2%. On the same basis, gross profit was 10·8% up on 1996. Operating costs were 9·0% up on the previous year. The Group's staff cost to revenue ratio improved to 49·1% from 50·2%. Staff costs rose by 8·9%, salaries by 8·2%.

On a constant currency basis, pre-tax profits were up 28% as sterling strengthened on average by 9·0% against the dollar and most of the Group's key trading currencies. If sterling had stayed at the same average levels as 1996, pre-tax profits would have been £198 million.

Headcount

Our staff numbers averaged 22,909 against 21,166 in 1996, up 8·2%. On a like-for-like basis, average headcount was up 442 to 22,909 from 22,467, an increase of 2·0%. At the end of 1997, staff numbers were 24,426 compared with 24,013 on a like-for-like basis at the end of 1996, an increase of 1·7%.

Competitive, geographic and sector performance

Competitive performance

There is still a significant profit opportunity in matching the operating margins of the best-performing competition. The best-performing competitive listed holding companies – The Interpublic Group of Companies Inc. ('IPG') and Omnicom Group Inc. ('Omnicom') achieve 13-15% operating margins compared to a WPP parent company margin of 11·8%.

Competitive public relations companies such as Shandwick plc show operating margins of over 10% and there is clearly an opportunity to improve the performance of our public relations and public affairs activities which are now at margins of almost 8%.

Over the next year we are targeting a further improvement in margins of 1% to bring us more into line with these competitors.

Geographic performance

WPP derives 81% of its revenue from outside the UK through its leading businesses in North America, Continental Europe, Asia Pacific, Latin America, Africa and the Middle East.

Currently, North America and Europe each account for roughly 40% of the Group's revenue but this share will fall over the coming years as a result of the better growth of our business elsewhere in the world.

There is little doubt that problems in South East Asia will have an impact on worldwide growth of gross domestic product. Most commentators predict that this will slow worldwide growth in 1998 by at least 1%. Although Asia Pacific accounts for 14% of Group revenues, the countries that have been most affected by the recent currency and stock exchange turmoil – Thailand, Indonesia, Malaysia, The Philippines and South Korea – account for between 2% and 3%. Our budgets for 1998 indicate a like-for-like growth rate of approximately 9% for Asia Pacific. In the first three months of 1998 revenues were up approximately 5% on the same basis.

Despite the events of 1997, your Board continues to believe that Asia Pacific will offer superior opportunities for growth in the medium to long term along with Latin America, Africa and the Middle East and Central and Eastern Europe. These markets now account for 20% of the Group's revenue as opposed to 13% in 1992. These markets are still forecast to continue to grow at significantly faster rates than those of North America and Western Europe.

Sector performance

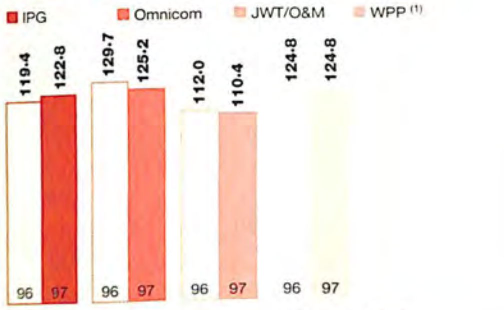
On the following pages the heads of our eight profit centres summarise their operational activities and highlights for 1997.

Source: Competitive data from the graphs on page 45 has been extracted from relevant annual reports and SEC filings. As disclosed below, adjustments have been made where, to the best of our knowledge, these are necessary for the purposes of comparability.

Figures presented are based on reportable US dollar amounts. Revenue per head and staff cost to revenue statistics are based upon average headcount for the year as adjusted, where appropriate, for acquisitions. All figures shown include income from non-consolidated businesses, but exclude charges for goodwill amortisation. Income relating to non-operating activities (primarily interest income and foreign exchange gains/losses), and severance charges and separately identified one-off costs (such as unusual compensation related gains) have been reclassified to non-operating income and staff costs as appropriate, where this information is publicly available. IPG, Omnicom, and the WPP consolidated figures include results from non-advertising business and parent company costs, whereas these are not included in JWT and O&M figures.

Competitive performance[†]

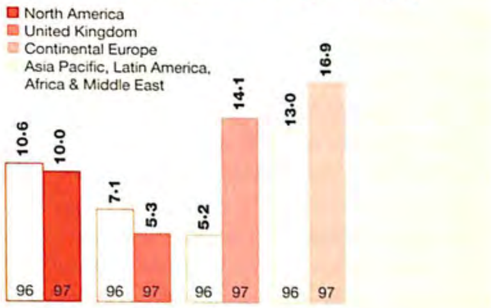
Revenue per head ($000)



[1]The reported revenue per employee in 1997 of $124,800 would have been $129,600 excluding the impact of currencies

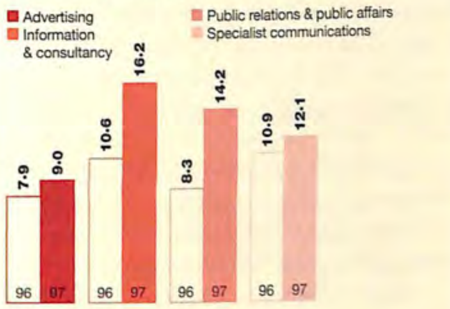
Geographic performance

Constant currency revenue growth (%)

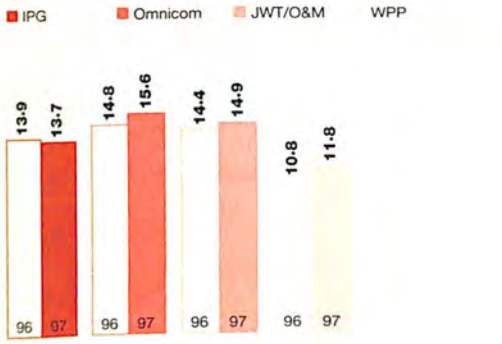


Sector performance

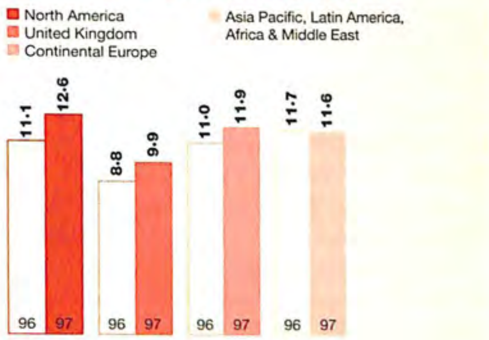
Constant currency revenue growth (%)



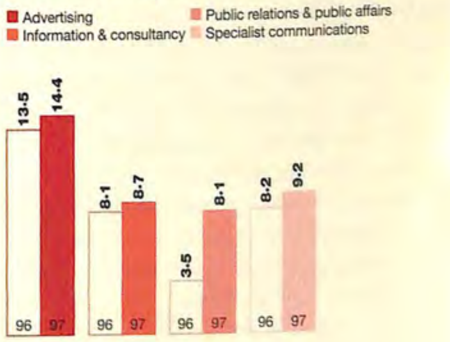
Operating margins (%)



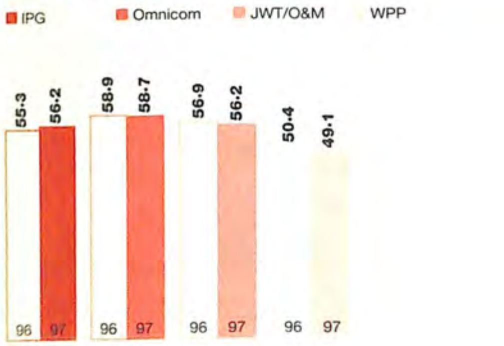
Operating margins by geography (%)



Operating margins by sector (%)

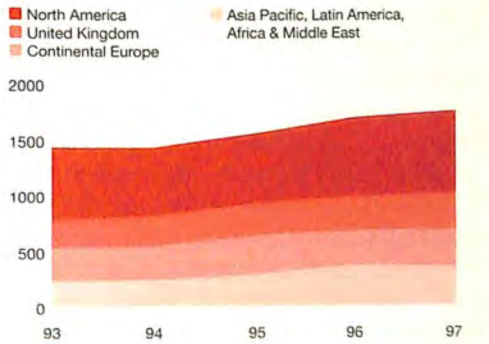


Staff cost to revenue ratio (%)

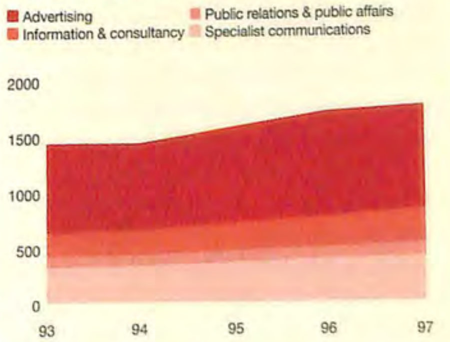


[†]see note on page 44

Revenue by geography (£m)



Revenue by sector (£m)



Chris Jones
Chairman and
chief executive officer
J. Walter Thompson
Company

Shelly Lazarus
Chairman and
chief executive officer
Ogilvy & Mather
Worldwide

Advertising

Combined advertising revenues at Ogilvy & Mather Worldwide and J. Walter Thompson Company rose by 9·3%. Combined operating margins for the two brands were 14·9%. Combined operating costs rose by 8·5% and the combined staff costs to revenue ratio fell to 56·2% from 56·9%. Ogilvy & Mather Worldwide generated net new billings of £324 million ($535 million) and J. Walter Thompson £191 million ($315 million).

Despite a fall in Conquest's revenues, operating costs were more than similarly reduced resulting in increased profitability.

Ogilvy & Mather Worldwide

Five years ago, we re-dedicated ourselves to Ogilvy & Mather's brand-building heritage with a simple mission statement: 'To be most valued by those who most value brands.' Each year since then, we have seen our commitment to Brand Stewardship rewarded by new business from existing clients and new client partners, of a stronger network knit tighter by a common belief in the power of brands across borders and disciplines, and by work that grows in creativity by its deep reflection of the clients.

In 1997 our commitment to brands was rewarded with new assignments from current clients such as Sunbeam, Hershey, Mattel, Ford, Kodak, Nestlé, SmithKline Beecham and Unilever, among many others. We also expanded our client partnerships to include important new brands such as ITT/Sheraton, GTE, Hoover, Nokia and Lotus, among others.

Delivering brands across borders requires building network strength – and that was another hallmark in 1997. From new Asian offices in Taiwan, Shenyang, Bangladesh and Bangalore, to acquisitions in Brazil, Argentina and Norway, to more than half a dozen new African affiliates, to new Latvian and Lithuanian partners, 1997 was a year of agency-building as well as brand-building. Ogilvy now has 377 offices in 97 countries – the strongest we've ever been.

Brand Stewardship is only meaningful if it is put to the service of superior product, and 1997 saw some spectacular successes. Among our many efforts for IBM worldwide, the 'e-business' launch was by itself more ambitious than some companies' entire advertising programs. So was American Express's most successful head-to-head advertising against Visa, and the advertising with Jerry Seinfeld continues to be some of the most popular advertising we've ever produced. Good advertising was not restricted to global brands – bold creative lifted awareness and sales for such diverse clients as Black Cat Whiskey in Thailand, Ford Ka in Europe, Impulse in the UK and for the Catalonian Lottery in Spain.

Work like this won a slew of awards – including Campaign of the Year from *Adweek* for IBM, a Grand Prix for Bassat O&M of Barcelona at the New York Festivals, and chart-topping performances in several regional awards shows, including the Asian and Australian national awards.

Once again we dominated the Direct Marketing Association's International Echos, continuing to hold the uncontested lead as the most awarded direct agency in the world – a credential all the more important as the discipline of one-to-one marketing moves rapidly into a central position in the marketing mix. We marked our evolution with a new name for the direct network, OgilvyOne Worldwide, and a redefined method of providing clients with one-to-one consulting, communications and connections.

We call it customer ownership.

As we enter our 50th Anniversary year, we have great cause to celebrate the success of the agency David Ogilvy created. We are building solidly on that heritage to deliver winning brand-building communications wherever our clients' needs take us now and into the 21st century.

Shelly Lazarus

J. Walter Thompson Company

At the core of J. Walter Thompson's belief system is a passionate conviction about the power and ever increasing importance of brands. A brand is really just a set of convictions that surround a product or service in the consumer's mind. J. Walter Thompson exists to create, sustain and build these convictions. In doing that, we help our clients drive short-term sales as well as increasing long-term value for their brands.

Brand-building may be ever more important, but it's not getting any easier. These days, rapid change is the default state for society where product copying now occurs within six months across all categories and where the channels by which consumers receive brand messages continue to multiply. That's why we have developed a completely new 'tool kit' to help our clients navigate their way their way through the noise and confusion.

We call this set of disciplines Thompson Total Branding. It has been developed in the service of a threefold mission:

– To understand better than anyone else how people consume communications;

– To use this superior understanding to help our clients plan the most effective total brand communications programs;

– To create ideas big enough to work powerfully in every communications channel these programs identify.

Dominic Proctor
Chief operating officer
MindShare

Luca Lindner
Chief executive officer
Conquest

And we know that however well we meet those first two challenges, our success will always be built on a foundation of great ideas. We are openly committed to continuing to increase our investment in world-class creative talent and are certainly the first, if not the only, major agency to link the incentive pay of all of our advertising professionals (not just creative people) to achieving continuous improvement in our creative product.

Thompson Total Branding has been at the heart of many successful new business endeavours in 1997 for new clients like Dell Computer, Shell (Europe and Asia), UDV, Siemens and Minolta. We are also applying the approach to our current clients with good results. For example, it helped us win the critical Kraft Foods Equity assignment.

Total Branding requires that we continue to expand our capabilities in 'untraditional' media (how old-fashioned that term already looks). So we have formed the Total Solutions Group, which is charged with expanding our own skills while also acting as the link between JWT and our sister companies in the Group.

Another powerful symptom of change is our commitment to MindShare, which we believe will ensure that our clients have access to the best media thinking and value everywhere in the world.

Not for the first time in its 134-year history, J. Walter Thompson is going through a period of transformation. That's why we have a 134-year history. In this business, leadership comes through innovation. And we are determined to lead.

Chris Jones

Conquest

1997 was an innovative year. Together with our partners we prepared the basis for a stronger, more creative, more European and more challenging network.

We strengthened our structure with the quality of people, increased creative value, won prizes and clients praised the efficiency of our campaigns.

Not only did we win important international clients such as CNN International, Ermenegildo Zegna men's fashion, Hankook Tires and Iveco Trucks, but we also significantly developed our business with existing clients such as Alfa Romeo, Bank of Scotland, Hoechst and Nestlé. This was successfully achieved with thanks also to the increasing co-operation with WPP Group companies such as EWA, Hill and Knowlton, Millward Brown and Research International.

With The Henley Centre we developed GAP (Global Advertising Process), a unique professional tool to help advertisers assess whether they should advertise on a local or global basis or, as Conquest increasingly believes on a 'glocal' basis.

Luca Lindner

Media planning, buying & research

In 1997, the Group created MindShare, a comprehensive media planning, buying and research company, potentially the largest of its kind in the world.

MindShare

MindShare was launched in 1997, first in Asia Pacific, then Europe. Formed from the merger of the media departments of J. Walter Thompson and Ogilvy & Mather, it will become the first truly global media company, and 1998 will witness rapid expansion.

MindShare's mission is to secure competitive advantage for its clients in a media world which is changing, and which is defined primarily by the fragmentation of mass media and high levels of media inflation. This demands intelligent thinking and formidable buying power – MindShare delivers both.

Securing competitive deals is a cornerstone for MindShare, and our critical volume ensures favoured customer status with powerful media owners. At the same time we are able to redefine media and approach it from a broader perspective by incorporating within our operation specialists from Group companies and other backgrounds. These include TV program production, forecasting, interactive media, sponsorship and research.

We have recently won new assignments from Kimberly-Clark (across Europe), Pepsi, Telegraph Newspapers and Unilever, and have everything in place to make us a truly formidable player on an international scale.

Dominic Proctor

Phil Barnard
Joint chairman
The Kantar Group

Martin Goldfarb
Joint chairman
The Kantar Group

David Jenkins
Chief executive officer
The Kantar Group

Information & consultancy

The Group's information and consultancy businesses continued their strong growth with gross profit rising by over 15%.

Operating costs rose by over 13% and, as a result, margins rose by 0·5% over the previous year. Particularly strong performances were recorded by Millward Brown International, Research International and Winona Research.

The Kantar Group

Kantar changed its scope and structure more in 1997 than in any year since its inception as we began developing outside our traditional strength of the survey research business. Most significantly we set up Kantar Media Research (KMR) to pull together our broad range of media research offerings, and to assimilate WPP's investment in IBOPE and Nielsen Media in Latin America. The growth of KMR was enhanced by Indian Market Research Bureau (IMRB) and A.C. Nielsen jointly winning the official Indian TV ratings business. There was also further international expansion of BMRB's Target Group Index business (used by agencies as a core media planning tool) which is available in 11 countries with plans to enter six more countries in the next two years.

We further developed outside our traditional business (for example Winona launched its Nextra 'call centers') so entering a totally different business area. San Francisco-based Millward Brown Interactive, which specialises exclusively in Web-based research, carried out the prestigious IAB (Interactive Advertising Bureau) survey which gained widespread publicity in the US as the definitive work on the current state of Web advertising effectiveness. Our research companies grew at double the rate of the global research market so gaining share for the fourth consecutive year, this growth driven by the success of our two global research businesses, Research International (RI) and Millward Brown International (MBI). Our performance came from both development of our existing clients where our top 20 clients added nearly $35 million of increased turnover, and from major new business wins. We won 13 projects of over $1 million, big in research terms, one of them worth over $20 million.

Through both acquisition and organic development we made real progress in geographic coverage with particular success in Asia, which despite the currency meltdown, remains the fastest growth area for market research worldwide. Both RI and MBI grew strongly throughout the region.

Our research businesses invested heavily in processes and procedures which will set them up to benefit from the increasing globalisation of research management and buying by the major multinationals:

– transnational management of client accounts and research 'brands' cutting across the geographic companies. In both RI and MBI, individuals have been appointed to manage their product or account globally.

– knowledge management systems to ensure each client is seeing the best the company has to offer worldwide. The investment in IT infrastructure is being leveraged with the use of Web-based technology to ensure executives in any office have fingertip access to product or client learning beyond their own location or experience base.

Overall, the combination of development and innovation in the existing businesses coupled with acquisition and development in 'non-traditional' areas position Kantar well for 1998. David Jenkins

Bob Seltzer
Chief Executive Officer
Ogilvy Public Relations
Worldwide

Howard Paster
Chairman and
Chief Executive Officer
Hill and Knowlton
Worldwide

Public relations & public affairs

The Group's public relations and public affairs activities continued to advance.

Hill and Knowlton's revenues rose by over 13% and operating costs by almost 10%. As a result, Hill and Knowlton continued to strengthen with margins doubling.

Ogilvy Public Relations Worldwide's revenues rose by 11% and operating costs by approximately 9%. As a whole, this sector showed operating margins of almost 8%, in excess of the Group's objective for 1997. 1998 should see public relations and public affairs margins at a level of 10% in line with the best-performing publicly listed competition.

Hill and Knowlton

Celebrating its 70th anniversary, Hill and Knowlton launched 1997 with its most senior worldwide managers attending *The Futures Conference* in Los Angeles, California. With a mind to positioning Hill and Knowlton in the near and long term, this forum addressed the internal and external issues of a worldwide public communications firm, with emphasis on delivering superior client service. Thus began H&K's exciting and formal transformation into a truly global company. Offices all over the world continued to celebrate the anniversary of the firm throughout the year.

Clients continued to show their confidence in Hill and Knowlton. Even though its new business wins were steady, a significant portion of the increase in revenue resulted from long-standing clients.

Out of the top 20 worldwide accounts, 14 were existing clients who expanded (sometimes by significant percentages) their work with H&K.

Global work increased. Kellogg uses H&K on five continents. GE Capital selected Hill and Knowlton as its agency of record. Winning the GAZPROM business in Russia added a Moscow office, bringing the number of worldwide offices to over 50. Hill and Knowlton formalised its Latin American region and soon expanded it by adding Buenos Aires to the family.

In 1997, Hill and Knowlton continued to rate high in growth and recognition. Growth last year was the best in almost a decade for the firm. In an independent industry poll, Hill and Knowlton was ranked the number two firm worldwide. Moving into the 21st century, Hill and Knowlton will continue to lead with the development of new, leading-edge capabilities and the ongoing refinement of its in-depth industry practice expertise.

Howard Paster

Ogilvy Public Relations Worldwide

- A new name: Ogilvy PR Worldwide
- A new positioning: 'Partners in Communications'
- A new vision and a set of values to achieve it
- A lot of new clients

1997 was a year of growth: Our traditional clients awarded us bigger and better projects: Navistar, IBM, Glaxo Wellcome, Miller Beer, MCI, Novartis grew significantly. New clients brought us global opportunities: Oracle, Bristol-Myers Squibb, VTEL. Our work for the European Commission took us to places such as Tiblisi, Mongolia and Kiev.

1997 was a year of change: Business shared across offices, across oceans and across practices grew significantly. We sought business in utility restructuring and won Allegheny Power and the Alliance for Competitive Energy. We sought to build our public health capability and won programs from the US CDC and NHLBI totalling $15 million over the next five years. To service Oracle on a global basis we put together an unprecedented coalition with two other agencies, winning one of the largest PR accounts in five years.

1997 was a year of transition: We enter 1998 poised for a future of global opportunity.

Bob Seltzer

John Zweig
Chief executive officer
Specialist Communications

Specialist communications

Specialist communications' revenues rose by almost 12%. Gross profit rose by almost 13% and operating costs by almost 12%. As a result, overall operating margins increased.

Specialist communications comprise 30 individual companies, each offering clients expertise in a different marketing discipline, audience segment or industry sector. The companies share a common mission – i.e. to *concentrate* the power of insight and communication to produce extraordinary results for our clients, and 1997 saw significant progress in each area of concentration.

Branding, identity & corporate consultancy

As linkages between corporate and product branding have become imperatives of client CEOs, we have built the Enterprise Identity Group into the largest international consultancy (*Design Week* – March 1998). Sampson Tyrrell Enterprise continued to expand the amount of work carried out for clients outside of the UK – now 42% of consulting fees. Our global profile was further enhanced by several major assignments, such as the new Diet Coke package design by SBG Enterprise.

Corporate services were also strengthened through the acquisition of Addison in the UK; growth of our internal communications start-up, Banner McBride; and the development of a new method for measuring corporate brand equity, called 'Equitus'.

Direct, promotion & relationship marketing

Our US-based promotion and direct businesses experienced the strongest growth in their respective histories, largely through record levels of Group referrals and collaboration. Two-thirds of Einson Freeman's current revenues are attributable to JWT and O&M introductions, and Sears consolidated its promotion agency roster which further benefited us. Thompson Total Solutions was formed as a vehicle for delivering comprehensive marketing available through our diverse specialist capabilities.

Strategic marketing consultancy

Strategic planning and consulting services were delivered through our various platforms in healthcare, retail, branding and identity. Additionally, as a business focused entirely on 'bringing the outside

world into our client organisations.
The Henley Centre was relaunched under new leadership and four distinct strategic offerings. Agreements were reached to acquire three additional strategic marketing consulting organisations in 1998: Charles River Strategies, MSI Consulting specialising in the technology sectors; and Management Ventures (MVI), a firm that delivers insight and opinion leadership in global retail trends.

Sector marketing

For the fifth consecutive year, the healthcare advertising industry's leading trade magazine named CommonHealth 'most admired agency', which also ranks first in worldwide income. Further capabilities were added in public relations, direct marketing and direct-to-consumer advertising of prescription drugs, where we also have built the leading position.

Modelled on this success, additional sectors have been identified for acquisition or organic development, including retail, technology (Smith and Jones, an agency serving high technology clients), and ethnic marketing.

The Geppetto Group, specialising in marketing and communications to kids and teens was launched and has already won several major assignments.

The Intuition Group, an advertising and marketing resource dedicated to women, was launched with Clairol Worldwide among its charter clients.

Our real estate marketing company, Pace, launched operations in Miami, Florida; and during this first year we achieved a dominant market share.

Media and technology services

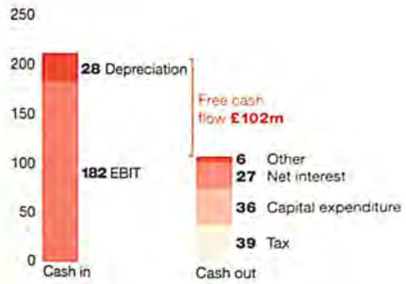
The Metro Group showed strong year-to-year performance and managed the nine-month BT Global Challenge Yacht Race. Metro also designed and installed systems and on-site training and technical support for the three largest call centres' internal communication system.

Separately, Savatar was launched to provide capabilities in electronic commerce and interactive media.

John Zweig

1995 cash flow (£m)

1996 cash flow (£m)



1997 cash flow (£m)

Manufacturing

The Group's manufacturing division had a better year with operating profits rising to £0·3 million from £0·2 million.

Parent company initiatives

To develop the benefits of membership of the Group for both clients and our people, the parent company continues to develop its activities in the areas of human resources, property, procurement, information technology and practice development. Seven practice areas which span all our brands have been developed initially in media planning, buying and research, healthcare, privatisation, new technologies, new faster-growing markets, internal communications and retailing. The objective behind these initiatives is to position the parent company as more than just a financial brand which concentrates on financial reporting, control, acquisitions and disposals, tax, treasury and investor relations. Innovative graduate recruitment schemes, awards and training programs have all continued to be implemented and developed in 1997. In 1997 the parent company implemented a worldwide share ownership program for all our people with over two years' service, a partnership program rewarding outstanding examples of collaboration across operating companies with the objective of adding value to our clients' businesses, and training programs on the new media and to enhance and stimulate creativity.

All of these new functions, which add value to the Group, are carried out by experienced individuals operating from the UK, the US and internationally. Where appropriate we recharge these costs to reflect the value we contribute to our operating companies.

Cash flow

As at 31 December 1997, the Group was cash positive with net cash of £195 million compared with £159 million at 31 December 1996 (1996: £135 million on the basis of 1997 year-end exchange rates). As usual, this was primarily due to the seasonally strong fourth quarter and management efforts to improve working capital.

Net debt averaged £115 million in 1997, down 21% against £145 million in 1996 (1996: down 24% against £152 million at 1997 exchange rates). These net debt figures compare with an equity market capitalisation of £2·9 billion, giving a total enterprise value of approximately £3·0 billion at the time of going to press.

Cash flow continued to improve as a result of improved profitability and management of working capital. In 1997, earnings before interest and taxes were £205 million, capital expenditure £36 million, depreciation £29 million, tax paid £54 million, interest and similar charges paid £29 million and other net cash outflows of £5 million. Free cash flow available for debt repayment, acquisitions and dividends was therefore £110 million. Of this free cash flow, acquisitions payments and investments absorbed £68 million, share repurchases and cancellations £31 million and dividends £13 million.

In order to enhance share owner value as liquidity improves, your Board has continued to give consideration to the relative merits of increasing the dividend payout ratio and share buy-backs. As noted above, your Board has decided to increase the full year's dividend by 25% to 2·13p net per share which is approximately seven times covered. In addition, as current opportunities for acquisitions at sensible prices are limited, the Company will increase the amount available for share buy-backs in the open market from £25 million to £50 million, when market conditions are appropriate. The recently proposed change to Advance Corporation Tax has increased the attraction of this approach. Such share repurchases will now represent 2-3% of the Company's share capital which may have a more significant impact in improving share owner value.

In the first three months of 1998, the period for which information is available prior to printing, liquidity improved still further, but was adversely affected by exchange rates, with net debt averaging £84 million versus £78 million for the same period last year (1997: £92 million at 1998 exchange rates).

Net balance sheet assets

No hedging is undertaken in relation to the accounting translation of overseas balance sheets. In 1997 this resulted in a reduction of £40 million (1996: increase of £22 million) in the sterling value of share owners' funds due to movements in exchange rates.

In 1997, net liabilities of £18 million compared with net assets of £27 million in 1996 (1996: net liabilities of £13 million on the basis of 1997 year-end exchange rates).

Treasury activities

Treasury activity is managed centrally, from the parent company's London and New York offices, and is principally concerned with the management of net working capital, interest rate, banking relations and debt management.

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 6·25% and below (excluding margin and hedging costs), with maturities extending into January 2003.

Targets for average net debt are set on an annual basis, and to assist in meeting this, working capital targets are set for all the Group's major operations. As mentioned above, over the last three years, improvements in working capital have made a significant contribution to Group liquidity.

The Group also enters into short-term forward foreign exchange transactions when it is necessary to hedge cross-border trading exposures. No speculative foreign exchange trading is undertaken.

Acquisitions and start-ups

During 1997 the Group increased its equity interests, at an initial cost of £68 million, in advertising agencies in Australia, Brazil, Hong Kong, India, Indonesia, Italy, Malaysia, Scandinavia, Singapore and the UK; in information and consultancy in China, Latin America, Taiwan and the US; in public relations and public affairs in the UK and in specialist communications in France, Germany, Taiwan and the UK. Functionally, the Group is well positioned in areas such as direct marketing and interactive communications, healthcare, hi-tech and retail marketing and information and consultancy where growth is stronger relative to the industry as a whole. In line with this objective the Group has made acquisitions and investments in custom research (China, Taiwan and the US), media research (Latin America), direct marketing (France, Germany and Taiwan), data mining (the US), media buying (UK) and through Media Technology Ventures in a number of interactive areas including Web television and telephone, digital animation and on-line healthcare education and sports entertainment.

1997 also saw the launch of MindShare, the combined media planning, buying and research unit of our two major agencies – Ogilvy & Mather Worldwide and J. Walter Thompson Company – in North America, Europe, Asia Pacific and Latin America. In addition a significant investment has been made in CIA Group plc, an independent media buyer. New ventures were initiated in the youth and teen markets with Geppetto Group; in marketing to women with The Intuition Group; and in business technology consulting with Savatar.

1998 outlook

As usual, our budgets for 1998 have been prepared on a conservative basis. They predict like-for-like, year-on-year revenue increases of 6% over 1997. This compares with similar budgeted growth of 6% in 1997 against an actual outcome of 8·4%. In the first three months of 1998 we are showing a like-for-like increase of over 8%. At current exchange rates, sterling has continued to strengthen against the Group's key trading currencies by approximately 4-5% on a weighted average basis when compared with the average for 1997. As a result of improved profitability and cash flow, it is anticipated that a continuation of first quarter exchange rates will not significantly affect the achievement of the Group's 1998 results.

In these circumstances there is no reason to believe that the Group cannot achieve the objective set in 1996 of further improving margins by another 1% in 1998. Your Board does not believe that there is any functional, geographic, account concentration or structural reason that should prevent the Group achieving operating margins of almost 13% by 1998. After all, the two best listed performers in the industry are at 14-15%, and that is where we would want to be. Neither is there any reason why operating margins could not be improved beyond this level although it may not be possible to achieve a continued level of growth of 1% per annum.

1998, WPP's thirteenth year, should be another good year. Whilst growth will be dampened by recent economic events in South-East Asia, early indications are that the worldwide growth rate of communications services will be only slightly lower than 1997 at approximately 5-6%. This may be no bad thing as there were signs that some western mature economies and fast-growing eastern markets were overheating. As long as governments do not overdo deflationary correction, the worldwide economic environment should be good for growth in communications services expenditure.

Paul Richardson, Group finance director

The numbers in full

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 corporate brand names.

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.

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 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 and buildings – over the term of the lease
Fixtures, fittings and equipment – 10%-33% per annum

6 Investments

Except as stated below, fixed asset investments are shown at cost less provision for permanent diminution in value.

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. The Group's share of the profits less losses and net assets is based on current information produced by the undertakings, adjusted to conform with the accounting policies of the Group.

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

The charge to the profit and loss account in respect of defined benefit pension schemes is the estimated regular cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The regular cost 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. For defined contribution schemes, contributions are charged to the profit and loss account as incurred.

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, cost of sales and revenue

Turnover comprises the gross amounts billed to clients in respect of commission-based income together with the total of other fees earned. Cost of sales comprises media payments and production costs. 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 1997

Notes		1997 £m	1996 £m	1995 £m	1997 $m	1996 $m	1995 $m
1	**Turnover (gross billings)**	**7,287·3**	7,084·0	6,553·1	**11,937·3**	11,062·4	10,342·1
	Cost of sales	**(5,540·6)**	(5,392·7)	(4,998·2)	**(9,076·1)**	(8,421·3)	(7,888·2)
1	**Revenue**	**1,746·7**	1,691·3	1,554·9	**2,861·2**	2,641·1	2,453·9
	Direct costs	**(278·0)**	(254·8)	(226·9)	**(455·4)**	(397·9)	(358·1)
	Gross profit	**1,468·7**	1,436·5	1,328·0	**2,405·8**	2,243·2	2,095·8
2	Operating expenses (net)	**(1,263·2)**	(1,254·1)	(1,178·5)	**(2,069·2)**	(1,958·4)	(1,859·9)
1	**Operating profit**	**205·5**	182·4	149·5	**336·6**	284·8	235·9
4	Net interest payable and similar charges	**(28·1)**	(29·1)	(35·8)	**(46·0)**	(45·4)	(56·5)
2	**Profit on ordinary activities before taxation**	**177·4**	153·3	113·7	**290·6**	239·4	179·4
5	Tax on profit on ordinary activities	**(56·7)**	(50·6)	(43·2)	**(92·9)**	(79·0)	(68·1)
	Profit on ordinary activities after taxation	**120·7**	102·7	70·5	**197·7**	160·4	111·3
	Minority interests	**(4·7)**	(2·7)	(1·8)	**(7·7)**	(4·2)	(2·9)
	Profit attributable to ordinary share owners	**116·0**	100·0	68·7	**190·0**	156·2	108·4
6	Ordinary dividends	**(15·7)**	(12·4)	(9·7)	**(25·7)**	(19·4)	(15·3)
	Retained profit for the year	**100·3**	87·6	59·0	**164·3**	136·8	93·1
7	**Earnings per share (net basis)**						
	Basic earnings per ordinary share	**15·7p**	13·7p	9·5p	**25·7¢**	21·4¢	15·0¢
	Fully diluted earnings per ordinary share	**15·4p**	13·3p	9·1p	**25·2¢**	20·8¢	14·4¢
6	**Ordinary dividend per share (net)**						
	Interim dividend	**0·7p**	0·556p	0·445p	**1·14¢**	0·87¢	0·70¢
	Final dividend	**1·43p**	1·144p	0·865p	**2·35¢**	1·79¢	1·37¢
	Earnings per ADR (net basis)						
	Basic earnings per ADR	**157·0p**	137·0p	95·0p	**$2·57**	$2·14	$1·50
	Fully diluted earnings per ADR	**154·0p**	133·0p	91·0p	**$2·52**	$2·08	$1·44
	Ordinary dividend per ADR (net)						
	Interim	**7·0p**	5·56p	4·45p	**11·4¢**	8·7¢	7·0¢
	Final	**14·3p**	11·44p	8·65p	**23·5¢**	17·9¢	13·7¢

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

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 58 and 60 are also expressed in US dollars using the approximate average rate for the year for the profit and loss account (1997: $1·6381= £1, 1996: $1·5616 = £1, 1995: $1·5782 = £1) and the rate in effect on 31 December for the balance sheet (1997: $1·6454 = £1, 1996: $1·7113 = £1, 1995: $1·5526 = £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.

All the operations of the Group continued throughout each of the years above and no material operations were acquired or discontinued.

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 share owners' funds are set out in note 23.

Consolidated cash flow statement
For the year ended 31 December 1997

Notes		1997 £m	1996 £m	1995 £m
9	**Net cash inflow from operating activities**	**285·8**	237·7	235·8
10	Return on investments and servicing of finance	**(30·5)**	(28·2)	(38·6)
	United Kingdom and overseas tax paid	**(54·0)**	(38·6)	(29·0)
10	Capital expenditure and financial investment	**(45·8)**	(41·0)	(39·1)
	Acquisition payments	**(68·5)**	(10·8)	(12·5)
	Equity dividends paid	**(13·5)**	(10·4)	(8·7)
	Net cash inflow before financing	**73·5**	108·7	107·9
10	Net cash outflow from financing	**(142·3)**	(31·5)	(38·5)
	(Decrease)/increase in cash and overdrafts for the year	**(68·8)**	77·2	69·4
	Translation difference	**(13·8)**	(44·8)	4·3
	Balance of cash and overdrafts at beginning of year	**374·6**	342·2	268·5
	Balance of cash and overdrafts at end of year	**292·0**	374·6	342·2
	Reconciliation of net cash flow to movement in net funds:			
	(Decrease)/increase in cash and overdrafts for the year	**(68·8)**	77·2	69·4
	Cash outflow from decrease in debt financing	**126·1**	34·9	38·5
	Other movements	**(1·0)**	1·2	(0·7)
	Translation difference	**(20·8)**	(25·5)	2·2
	Movement in net funds in the year	**35·5**	87·8	109·4
8	**Net funds/(debt) at beginning of year**	**159·2**	71·4	(38·0)
8	**Net funds at end of year**	**194·7**	159·2	71·4

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

Consolidated statement of total recognised gains and losses
For the year ended 31 December 1997

Notes		1997 £m	1996 £m	1995 £m
	Profit for the financial year	**116·0**	100·0	68·7
23	Exchange adjustments on foreign currency net investments	**(40·1)**	22·3	(5·3)
23	Gain arising on expiry of subscription warrants	**–**	1·9	–
23	Exchange adjustments on conversion of Convertible Cumulative Redeemable Preference shares	**–**	–	(1·0)
	Total recognised gains and losses relating to the year	**75·9**	124·2	62·4

Consolidated balance sheet
As at 31 December 1997

Notes		**1997 £m**	1996 £m	1995 £m	**1997 $m**	1996 $m	1995 $m
	Fixed assets						
12	Intangible assets	**350·0**	350·0	350·0	**575·9**	599·0	543·4
13	Tangible assets	**143·5**	138·6	139·2	**236·1**	237·2	216·1
14	Investments	**70·5**	45·8	35·3	**116·0**	78·4	54·8
		564·0	534·4	524·5	**928·0**	914·6	814·3
	Current assets						
15	Stocks and work in progress	**99·7**	94·1	92·5	**164·0**	161·0	143·6
16	Debtors	**827·6**	765·0	803·4	**1,361·7**	1,309·1	1,247·4
17	Debtors within working capital facility:						
	Gross debts	**335·2**	264·1	245·1	**551·5**	452·0	380·5
	Non-returnable proceeds	**(211·7)**	(175·0)	(160·3)	**(348·3)**	(299·5)	(248·9)
		123·5	89·1	84·8	**203·2**	152·5	131·6
	Cash at bank and in hand	**364·5**	412·2	376·0	**599·7**	705·4	583·8
		1,415·3	1,360·4	1,356·7	**2,328·6**	2,328·0	2,106·4
18	**Creditors:** amounts falling due within one year	**(1,701·6)**	(1,508·0)	(1,521·7)	**(2,799·8)**	(2,580·6)	(2,362·6)
	Net current liabilities	**(286·3)**	(147·6)	(165·0)	**(471·2)**	(252·6)	(256·2)
	Total assets less current liabilities	**277·7**	386·8	359·5	**456·8**	662·0	558·1
19	**Creditors:** amounts falling due after more than one year	**(221·5)**	(281·7)	(328·7)	**(364·5)**	(482·1)	(510·3)
20	**Provisions for liabilities and charges**	**(74·5)**	(78·2)	(88·8)	**(122·6)**	(133·8)	(137·9)
	Net (liabilities)/assets	**(18·3)**	26·9	(58·0)	**(30·3)**	46·1	(90·1)
	Capital and reserves						
22,23	Called up share capital	**73·6**	74·1	73·7	**121·1**	126·8	114·4
23	Share premium account	**421·6**	416·5	409·0	**693·7**	712·8	635·0
23	Goodwill write-off reserve	**(1,160·4)**	(1,068·8)	(1,040·2)	**(1,909·3)**	(1,829·0)	(1,615·0)
23	Other reserves	**78·4**	117·8	97·4	**129·0**	201·6	151·2
23	Profit and loss account	**561·6**	482·7	397·7	**924·0**	826·0	617·5
	Equity share owners' funds	**(25·2)**	22·3	(62·4)	**(41·5)**	38·2	(96·9)
	Minority interests	**6·9**	4·6	4·4	**11·2**	7·9	6·8
	Total capital employed	**(18·3)**	26·9	(58·0)	**(30·3)**	46·1	(90·1)

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

Signed on behalf of the Board on 6 May 1998:

M S Sorrell
Group chief executive

P W G Richardson
Group finance director

Notes to the consolidated profit and loss account

1 Segment information

The Group is the leading worldwide communications services organisation offering national and multinational clients a comprehensive range of communications services. These services include advertising, media planning, buying and research, information and consultancy, public relations and public affairs, and specialist communications. The Group derives a substantial proportion of its revenue and operating income from North America, the United Kingdom and Continental Europe and the Group's performance has historically been linked with the economic performance of these regions. However, due to the greater rate of economic growth in the world's emerging markets, in particular Asia Pacific, Latin America and Central and Eastern Europe, and the increasing activities of clients in such regions, these areas are contributing an increasing proportion of the Group's business.

Contributions by geographical area were as follows:

	1997 £m	Change %	1996 £m	Change %	1995 £m
Turnover					
United Kingdom	**809·0**	5·0	770·4	6·2	725·2
United States	**3,159·7**	3·8	3,043·9	11·4	2,733·3
Continental Europe	**1,539·0**	(3·6)	1,595·6	2·9	1,550·9
Asia Pacific, Latin America, Africa & Middle East	**1,779·6**	6·3	1,674·1	8·4	1,543·7
	7,287·3	2·9	7,084·0	8·1	6,553·1
Revenue					
United Kingdom	**334·0**	5·3	317·3	7·1	296·1
United States	**700·8**	5·0	667·2	12·2	594·8
Continental Europe	**336·2**	(4·7)	352·6	2·6	343·6
Asia Pacific, Latin America, Africa & Middle East	**375·7**	6·1	354·2	10·5	320·4
	1,746·7	3·3	1,691·3	8·8	1,554·9
Operating profit					
United Kingdom	**33·0**	17·9	28·0	22·8	22·8
United States	**88·4**	17·6	75·2	23·9	60·7
Continental Europe	**40·1**	3·4	38·8	(1·0)	39·2
Asia Pacific, Latin America, Africa & Middle East	**44·0**	8·9	40·4	50·7	26·8
	205·5	12·7	182·4	22·0	149·5

There is no significant cross-border trading.

Contributions by operating sector were as follows:

	1997 £m	Change %	1996 £m	Change %	1995 £m
Turnover					
Advertising	**6,115·8**	1·5	6,023·6	7·3	5,613·9
Information & consultancy	**297·7**	9·1	273·0	9·9	248·5
Public relations & public affairs	**114·4**	7·4	106·5	8·9	97·8
Specialist communications	**759·4**	11·5	680·9	14·8	592·9
	7,287·3	2·9	7,084·0	8·1	6,553·1
Revenue					
Advertising	**923·1**	(0·7)	930·2	7·6	864·8
Information & consultancy	**297·7**	9·1	273·0	9·9	248·5
Public relations & public affairs	**114·4**	7·4	106·5	8·9	97·8
Specialist communications	**411·5**	7·8	381·6	11·0	343·8
	1,746·7	3·3	1,691·3	8·8	1,554·9
Operating profit					
Advertising	**132·7**	5·9	125·3	15·5	108·5
Information & consultancy	**25·9**	17·7	22·0	19·6	18·4
Public relations & public affairs	**9·2**	148·6	3·7	260·9	(2·3)
Specialist communications	**37·7**	20·1	31·4	26·1	24·9
	205·5	12·7	182·4	22·0	149·5

2 Operating expenses

	1997 £m	1996 £m	1995 £m
Total staff costs (note 3)	**857·8**	852·4	799·2
Establishment costs	**133·9**	137·0	132·1
Other operating expenses (net)	**282·0**	276·6	260·9
Share of profits of associated undertakings before tax	**(10·6)**	(12·3)	(14·5)
Loss on sale of tangible fixed assets	**0·1**	0·4	0·8
	1,263·2	1,254·1	1,178·5
Operating expenses include:			
Depreciation	**29·1**	28·4	26·2
Operating lease rentals:			
Property (excluding real estate taxes)	**71·9**	75·8	80·1
Plant and machinery	**15·0**	16·8	17·3
	86·9	92·6	97·4
Auditors' remuneration:			
Audit fees			
– Arthur Andersen	**1·8**	1·8	1·8
– other	**0·2**	0·3	0·3
	2·0	2·1	2·1
Fees in respect of other advisory work	**2·4**	2·0	1·8

Minimum committed annual rentals

Amounts payable (net of taxes) in 1998 under the foregoing leases will be as follows:

	Plant and machinery			Property		
	1998 £m	1997 £m	1996 £m	**1998 £m**	1997 £m	1996 £m
In respect of operating leases which expire:						
– within one year	**3·9**	4·7	4·9	**6·5**	7·9	14·9
– within two to five years	**10·9**	9·1	11·2	**15·0**	15·6	9·6
– after five years	**0·6**	0·3	0·9	**49·8**	45·7	55·4
	15·4	14·1	17·0	**71·3**	69·2	79·9

Future minimum annual amounts payable (net of taxes) under lease commitments in existence at 31 December 1997 are as follows:

	Minimum rental payments £m	Less sub-let rentals £m	Net payment £m
Year ended 31 December			
1998	86·7	(6·2)	80·5
1999	90·4	(6·0)	84·4
2000	82·8	(5·5)	77·3
2001	76·1	(5·6)	70·5
2002	69·2	(5·0)	64·2
Later years (to 2009)	342·2	(27·5)	314·7
	747·4	(55·8)	691·6

Notes to the consolidated profit and loss account continued

3 Our people

Our staff numbers averaged 22,909 against 21,166 in 1996, up 8·2%, including acquisitions. Their geographical distribution was as follows:

	1997 Number	1996 Number	1995 Number
United Kingdom	**3,625**	3,673	3,503
United States	**6,571**	6,387	6,164
Continental Europe	**4,291**	4,004	3,793
Asia Pacific, Latin America, Africa & Middle East	**8,422**	7,102	6,692
	22,909	21,166	20,152

At the end of 1997 staff numbers were 24,426 compared with 24,013, up 1·7% on a like-for-like basis at the end of 1996, operating in 810 offices in 91 countries.

Total staff costs were made up as follows:

	1997 £m	1996 £m	1995 £m
Wages and salaries	**615·4**	613·8	569·3
Payments and provisions charged under short- and long-term incentive plans	**51·6**	56·7	49·3
Social security costs	**70·4**	70·4	66·7
Other pension costs	**20·2**	22·9	25·1
Other staff costs	**100·2**	88·6	88·8
	857·8	852·4	799·2
Staff cost to revenue ratio	**49·1%**	50·4%	51·4%

Directors' emoluments are disclosed on page 82.

4 Net interest payable and similar charges

	1997 £m	1996 £m	1995 £m
On bank loans and overdrafts, and other loans			
– repayable within five years, by instalments	**1·2**	21·5	26·1
– repayable within five years, not by instalments	**23·8**	8·0	9·7
– on all other loans	**1·4**	0·2	0·5
Interest payable	**26·4**	29·7	36·3
Interest receivable	**(10·3)**	(11·5)	(10·8)
Net interest payable	**16·1**	18·2	25·5
Charges in respect of working capital facilities	**12·0**	10·9	10·3
	28·1	29·1	35·8

Net interest payable fell to £16·1 million from £18·2 million, reflecting improved profitability and cash flow, and better borrowing margins.

In 1995 and previous years' reported figures the working capital facility charges were charged against operating profits.

The weighted average interest rate on short-term borrowings at 31 December 1997 was 6·2% (1996: 6·4% and 1995: 6·8%). The effective interest rate on long-term borrowings was 6·2% as at 31 December 1997 (1996: 6·9%; 1995: 7·3%), including a margin of 0·425% over US dollar LIBOR.

Derivative financial instruments

The Group entered into various types of US dollar interest rate contracts in managing its interest rate risk, as below. The rates below exclude margin costs.

	1997		1996		1995	
	Swaps	**Caps**	Swaps	Caps	Swaps	Caps
Notional principal amount	**$350m**	**nil**	$300m	nil	$300m	$100m
Average pay rate	**5·98%**	**n/a**	5·79%	n/a	5·79%	n/a
Average receive rate	**LIBOR**	**n/a**	LIBOR	n/a	LIBOR	n/a
Average fixed cap rate	**n/a**	**n/a**	n/a	n/a	n/a	5·50%
Average term	**6 mnthly**	**n/a**	6 mnthly	n/a	6 mnthly	6 mnthly
Latest maturity date	**Jan 2003**	**n/a**	Jan 2001	n/a	Jan 2001	Jan 1998

The Group enters into interest rate swap agreements to reduce the impact of changes in interest rates on its floating rate debt. Under the swap agreements the Group agrees with other parties to exchange, at specified intervals, the difference between the fixed strike rate and prevailing floating US dollar LIBOR calculated by reference to the agreed notional principal amount.

4 Net interest payable and similar charges continued

The differential paid or received by the Group on the swap agreements is charged/(credited) to interest expense in the year to which it relates.

The term of such instruments is not greater than the term of the debt being hedged and any anticipated refinancing or extension of the debt.

The Group is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but it does not expect any counterparties to fail to meet their obligations given the Group's policy of selecting only counterparties with high credit ratings.

Other than the above, the Group has no significant utilisation of derivative financial instruments.

5 Tax on profit on ordinary activities

The tax charge is based on the profit for the year and comprises:

	1997 £m	1996 £m	1995 £m
Corporation tax at 31·5% (1996 and 1995: 33%)	**6·1**	4·2	–
Deferred taxation	**(2·6)**	–	0·8
Overseas taxation	**52·0**	40·2	31·9
Tax on profits of associate companies	**3·9**	5·4	6·8
Write-back of previously written-off ACT	**(2·7)**	–	–
Advance corporation tax written off	**–**	0·8	3·7
	56·7	50·6	43·2
Effective tax rate on profit before tax	**32%**	33%	38%

The following table reconciles the Group's tax to the United Kingdom statutory rate of 31·5% (1996 and 1995: 33%):

	1997 £m	1996 £m	1995 £m
Tax on pre-tax income at statutory rates of 31·5% (1996 and 1995: 33%)	**55·9**	50·6	37·5
Effects of:			
Permanent differences between expenditures charged in arriving at income and expenditures allowed for tax purposes	**2·6**	3·7	(1·7)
Utilisation of tax losses brought forward	**(4·1)**	(7·3)	(1·6)
Unused tax losses carried forward	**3·8**	2·6	2·7
Differences between UK and overseas statutory standard tax rates	**1·2**	0·2	2·6
Write-back of previously written-off ACT	**(2·7)**	–	–
Advance corporation tax written off	**–**	0·8	3·7
Tax on profit on ordinary activities	**56·7**	50·6	43·2

6 Ordinary dividends

Ordinary dividend

	1997	1996	1995	**1997**	1996	1995
	Pence per share (net)			**£m**	£m	£m
Interim dividend paid	**0·70p**	0·556p	0·445p	**5·2**	4·1	3·3
Final dividend proposed	**1·43p**	1·144p	0·865p	**10·5**	8·3	6·4
	2·13p	1·700p	1·310p	**15·7**	12·4	9·7

The 1997 interim and final dividends were respectively paid and proposed to be paid in the form of foreign income dividends.

7 Earnings per ordinary share

Basic earnings per share have been calculated using earnings of £116·0 million (1996: £100·0 million, 1995: £68·7 million) and weighted average shares in issue during the year of 738,573,147 shares (1996: 728,263,475 shares, 1995: 722,550,473 shares).

Fully diluted earnings per share have been calculated on a weighted average of 772,071,440 shares (1996: 767,570,424 shares, 1995: 756,641,018 shares). This takes into account the exercise of employee share options where these are expected to dilute earnings

Notes to the consolidated cash flow statement

8 Sources of finance

The following table is a supplementary disclosure to the consolidated cash flow statement, summarising the equity and debt financing of the Group, and changes during the year.

	1997 Shares £m	1997 Debt £m	1996 Shares £m	1996 Debt £m	1995 Shares £m	1995 Debt £m
Analysis of changes in financing						
Beginning of year	**490·6**	**215·4**	482·7	270·8	479·5	306·5
Conversion of Convertible Cumulative Redeemable Preference shares	**–**	**–**	–	–	1·0	–
Other issues of share capital	**5·3**	**–**	7·9	–	2·2	–
Share buy-back	**(0·7)**	**–**	–	–	–	–
Repayment of bank loans	**–**	**(18·5)**	–	(40·5)	–	(20·6)
Increase/(reduction) in drawings on bank loans	**–**	**(106·4)**	–	4·4	–	(12·1)
Amortisation/(payment) of financing costs included in net debt	**–**	**(0·2)**	–	1·2	–	(5·4)
Exchange adjustments on long-term borrowings	**–**	**7·0**	–	(20·5)	–	2·4
End of year	**495·2**	**97·3**	490·6	215·4	482·7	270·8

The above table excludes bank overdrafts which fall within cash for the purposes of the consolidated cash flow statement.

Shares

At 31 December 1997, the Company's share base was entirely composed of ordinary equity share capital and share premium of £495·2 million (1996: £490·6 million, 1995: £482·7 million), further details of which are disclosed in notes 22 and 23.

Debt

Revolving Credit Facility

The majority of the Group's debt is funded under a new $650 million syndicated Revolving Credit Facility dated July 1997. This facility is scheduled to amortise in $25 million semi-annual increments to $500 million in July 2000 and then remain as a fixed commitment until July 2002. The Group's syndicated borrowings drawn down under the agreement at 31 December 1997 totalled $150 million (1996: $354·1 million).

Interest on the majority of the Group's borrowings is payable at a margin of between 0·20% and 0·55% over US dollar LIBOR depending on certain covenant conditions being met and, for a significant proportion of borrowings, is hedged for the next three to five years at US dollar LIBOR rates of 6·25% or less (excluding margin costs).

Borrowings under the Revolving Credit Facility are secured by guarantees given by various of the Group's operating subsidiaries and are governed by certain financial covenants based on the results and financial position of the Group.

The following table is an analysis of net funds with debt analysed by year of repayment:

	1997 £m	Change in year £m	1996 £m	Change in year £m	1995 £m
Debt					
Within one year	**(9·3)**	38·8	(48·1)	(9·9)	(38·2)
Between one and two years	**–**	43·8	(43·8)	(0·1)	(43·7)
Between two and five years	**(87·0)**	35·6	(122·6)	65·3	(187·9)
Over five years – by instalments	**(1·0)**	(0·1)	(0·9)	0·1	(1·0)
Debt financing under the Credit Facility Agreement and from unsecured loan notes	**(97·3)**	118·1	(215·4)	55·4	(270·8)
Short-term bank loans and overdrafts – within one year	**(72·5)**	(34·9)	(37·6)	(3·8)	(33·8)
Cash at bank and in hand	**364·5**	(47·7)	412·2	36·2	376·0
Net funds	**194·7**	35·5	159·2	87·8	71·4

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

	1997 £m	1996 £m	1995 £m
Operating profit	**205·5**	182·4	149·5
Depreciation charge (note 13)	**29·1**	28·4	26·2
Decrease in working capital and provisions	**58·9**	33·7	68·8
Share of associated undertaking profits before tax	**(10·6)**	(12·3)	(14·5)
Dividends and other receipts from associated undertakings (note 14)	**2·8**	5·1	5·0
Profit of associates less dividend received	**(7·8)**	(7·2)	(9·5)
Loss on sale of tangible fixed assets	**0·1**	0·4	0·8
Net cash inflow from operating activities	**285·8**	237·7	235·8

The following table analyses the changes in working capital and provisions that have contributed to the net cash inflow from operating activities in the consolidated cash flow statement:

	1997 £m	1996 £m	1995 £m
Changes in working capital and provisions			
(Increase)/decrease in stocks and work in progress	**(2·5)**	(8·6)	12·7
(Increase)/decrease in debtors	**(66·3)**	(12·8)	(107·9)
Increase in creditors – short term	**120·0**	53·6	154·0
– long term	**6·9**	15·4	0·2
Increase/(decrease) in provisions	**0·8**	(13·9)	9·8
Decrease in working capital and provisions	**58·9**	33·7	68·8

10 Analysis of non-operating cash flows

The following tables analyse the items included within the main cash flow headings on page 59:

	1997 £m	1996 £m	1995 £m
Returns on investments and servicing of finance			
Interest and similar charges paid	**(39·9)**	(39·1)	(48·1)
Interest received	**10·6**	11·7	10·8
Dividends paid to minorities	**(1·2)**	(0·8)	(1·3)
Net cash outflow	**(30·5)**	(28·2)	(38·6)
Capital expenditure and financial investment			
Purchase of tangible fixed assets (note 13)	**(36·3)**	(35·7)	(35·0)
Purchase of own shares by ESOP trust (note 14)	**(12·7)**	(6·9)	(6·2)
Proceeds from sale of tangible fixed assets	**3·2**	1·6	2·1
Net cash outflow	**(45·8)**	(41·0)	(39·1)
Financing activities			
Net repayment of bank loans	**(18·5)**	(40·5)	(20·6)
Increase/(reduction) in drawings on bank loans	**(106·4)**	4·4	(12·1)
Share buy-backs	**(18·5)**	–	–
Financing costs	**(1·3)**	1·2	(5·8)
Proceeds from issue of shares	**2·4**	3·4	–
Net cash outflow	**(142·3)**	(31·5)	(38·5)

Notes to the consolidated balance sheet

11 Segment information

Assets by geographical area were as follows:

	Total assets employed			Non-interest bearing assets/(liabilities)		
	1997 £m	1996 £m	1995 £m	**1997 £m**	1996 £m	1995 £m
United Kingdom	**356·0**	349·5	292·5	**31·2**	26·7	13·7
United States	**515·8**	497·9	508·1	**(420·5)**	(260·9)	(253·7)
Continental Europe	**489·0**	508·5	564·5	**61·9**	22·1	30·5
Asia Pacific, Latin America, Africa & Middle East	**618·5**	538·9	516·1	**114·4**	79·8	80·1
	1,979·3	1,894·8	1,881·2	**(213·0)**	(132·3)	(129·4)
Net interest bearing funds				**194·7**	159·2	71·4
Net (liabilities)/assets in the consolidated balance sheet				**(18·3)**	26·9	(58·0)

Assets by operating sector were as follows:

	Total assets employed			Non-interest bearing assets/(liabilities)		
	1997 £m	1996 £m	1995 £m	**1997 £m**	1996 £m	1995 £m
Advertising	**1,461·7**	1,424·4	1,511·0	**(212·2)**	(123·7)	(144·4)
Information & consultancy	**157·7**	133·8	131·3	**(11·3)**	(0·9)	1·6
Public relations & public affairs	**81·4**	101·3	62·5	**11·7**	4·0	10·4
Specialist communications	**278·5**	235·3	176·4	**(1·2)**	(11·7)	3·0
	1,979·3	1,894·8	1,881·2	**(213·0)**	(132·3)	(129·4)
Net interest bearing funds				**194·7**	159·2	71·4
Net (liabilities)/assets in the consolidated balance sheet				**(18.3)**	26·9	(58·0)

Certain items, including the valuation of corporate brand names, have been allocated within the above analyses on the basis of the revenue of the subsidiary undertakings to which they relate.

12 Intangible fixed assets

	1997 £m	1996 £m	1995 £m
Corporate brand names	**350·0**	350·0	350·0

Corporate brand names represent the directors' valuation of the brand names J. Walter Thompson 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 HSBC Investment Bank.

13 Tangible fixed assets

The movements in 1997 and 1996 were as follows:

	Land and buildings				
	Freehold £m	Short leasehold £m	Fixtures, fittings and equipment £m	Computer equipment £m	Total £m
Cost:					
1 January 1996	12·3	109·0	85·4	77·5	284·2
Additions	1·4	7·1	11·7	15·5	35·7
New acquisitions	–	0·1	0·1	5·1	5·3
Disposals	(0·5)	(1·6)	(3·1)	(3·5)	(8·7)
Exchange adjustments	(0·9)	(10·3)	(14·0)	(4·7)	(29·9)
31 December 1996	12·3	104·3	80·1	89·9	286·6
Additions	0·8	7·9	8·1	19·5	36·3
New acquisitions	1·5	1·0	0·9	3·5	6·9
Disposals	(2·3)	(1·3)	(5·5)	(3·1)	(12·2)
Exchange adjustments	(0·3)	1·2	(1·1)	(1·9)	(2·1)
31 December 1997	**12·0**	**113·1**	**82·5**	**107·9**	**315·5**
Depreciation:					
1 January 1996	2·7	37·1	48·2	57·0	145·0
Charge	0·2	7·0	11·6	9·6	28·4
Disposals	(0·3)	(0·6)	(2·5)	(3·3)	(6·7)
Exchange adjustments	(0·2)	(4·9)	(11·1)	(2·5)	(18·7)
31 December 1996	2·4	38·6	46·2	60·8	148·0
New acquisitions	0·4	0·8	0·7	2·2	4·1
Charge	0·6	5·5	9·8	13·2	29·1
Disposals	(0·6)	(1·0)	(4·6)	(2·7)	(8·9)
Exchange adjustments	(0·4)	1·9	(0·5)	(1·3)	(0·3)
31 December 1997	**2·4**	**45·8**	**51·6**	**72·2**	**172·0**
Net book value:					
31 December 1997	**9·6**	**67·3**	**30·9**	**35·7**	**143·5**
31 December 1996	9·9	65·7	33·9	29·1	138·6
1 January 1996	9·6	71·9	37·2	20·5	139·2

Leased assets (other than leasehold property) included above have a net book value of £1·8 million (1996: £1·5 million, 1995: £1·6 million).

At the end of the year, capital commitments contracted, but not provided for were:

	1997 £m	1996 £m	1995 £m
Capital commitments	**2·2**	0·3	0·7

Notes to the consolidated balance sheet continued

14 Fixed asset investments

The following are included in the net book value of fixed asset investments:

	Associated undertakings £m	Own shares £m	Other investments £m	Total £m
1 January 1996	23·6	10·4	1·3	35·3
Additions	1·0	6·9	2·2	10·1
Associates now consolidated	(1·2)	–	–	(1·2)
Share of profits after tax of associated undertakings	6·9	–	–	6·9
Dividends and other receipts	(5·1)	–	–	(5·1)
Exchange adjustments	(0·2)	–	–	(0·2)
31 December 1996	25·0	17·3	3·5	45·8
Additions	24·6	12·7	17·3	54·6
Goodwill arising on acquisitions of new associates	(22·6)	–	–	(22·6)
Associates now consolidated	(7·4)	–	–	(7·4)
Share of profits after tax of associated undertakings	6·7	–	–	6·7
Dividends and other receipts	(2·8)	–	–	(2·8)
Exchange adjustments	(0·8)	–	–	(0·8)
Disposals	–	(3·0)	–	(3·0)
31 December 1997	**22·7**	**27·0**	**20·8**	**70·5**

The Group's principal associated undertakings include:

	% owned	Country of incorporation
Batey Ads (Pte) Limited	30·0	Singapore
Chime Communications plc	29·9	United Kingdom
IBOPE Group	31·0	Brazil
Ogilvy & Mather Rightford Pty Limited	40·0	South Africa
Mediacenter BV	50·0	Netherlands

The Company's holdings of own shares are stated at cost, and represent purchases by the Employee Share Option Plan ('ESOP') trust of shares in WPP Group plc for the purpose of funding certain of the Group's long-term incentive plan liabilities, details of which are disclosed in the Compensation committee report on pages 87 to 93.

The trustees of the ESOP purchase the Company's ordinary shares in the open market using funds provided by the Company. The Company also has an obligation to make regular contributions to the ESOP to enable it to meet its administrative costs.

The number and market value of the ordinary shares of the Company held by the ESOP at 31 December 1997 was 16,456,119 (1996: 13,748,628, 1995: 11,282,693) and £44·3 million (1996: £34·9 million, 1995: £18·5 million) respectively.

Other investments include a UK listed investment of £14·3 million (1996: nil). This represents an interest of 13·7% in the ordinary share capital of CIA Group plc, Europe's second-largest independent media buyer.

15 Stocks and work in progress

The following are included in the net book value of stocks and work in progress:

	1997 £m	1996 £m	1995 £m
Work in progress	**97·0**	90·8	88·5
Stocks	**2·7**	3·3	4·0
	99·7	94·1	92·5

16 Debtors

The following are included in debtors:

	1997 £m	1996 £m	1995 £m
Amounts falling due within one year			
Trade debtors outside working capital facility	**633·9**	601·1	638·6
VAT and sales taxes recoverable	**7·2**	11·9	13·6
Corporate income taxes recoverable	**6·5**	12·6	4·1
Other debtors	**103·3**	84·7	83·7
Prepayments and accrued income	**53·5**	43·0	41·3
	804·4	753·3	781·3
Amounts falling due after more than one year			
Other debtors	**18·9**	8·3	17·2
Prepayments and accrued income	**4·3**	3·4	4·9
	23·2	11·7	22·1
	827·6	765·0	803·4

Movements on bad debt provisions were as follows:

	1997 £m	1996 £m	1995 £m
Balance at beginning of year	**14·7**	17·3	18·5
Charged/(credited):			
To costs and expenses	**6·6**	5·1	3·5
Exchange adjustments	**(0·5)**	(1·8)	0·6
Other	**(5·2)**	(5·9)	(5·3)
Balance at end of year	**15·6**	14·7	17·3

The allowance for doubtful debts is equivalent to 2·0% (1996: 2·1%, 1995: 2·3%) of gross trade accounts receivable.

17 Debtors within working capital facility

The following are included in debtors within the Group's working capital facilities:

	1997 £m	1996 £m	1995 £m
Gross debts	**335·2**	264·1	245·1
Non-returnable proceeds	**(211·7)**	(175·0)	(160·3)
	123·5	89·1	84·8

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.

Notes to the consolidated balance sheet continued

18 Creditors: amounts falling due within one year

The following are included in creditors falling due within one year:

	1997 £m	1996 £m	1995 £m
Bank loans and overdrafts (note 8)	**81.8**	85·7	70·1
Unsecured loan notes (note 8)	**–**	–	1·9
Trade creditors	**1,113.0**	952·8	1,008·7
Corporate income taxes payable	**49.2**	38·8	23·5
Other taxation and social security	**58.5**	57·7	60·6
Dividends proposed	**10.5**	8·3	6·4
Payments due to vendors (note 24)	**9.1**	3·0	–
Other creditors and accruals	**282.2**	260·6	273·8
Deferred income	**97.3**	101·1	76·7
	1,701.6	1,508·0	1,521·7

Bank loans and overdrafts include overdrafts of £72·5 million (1996: £37·6 million, 1995: £33·8 million).

19 Creditors: amounts falling due after more than one year

The following are included in creditors falling due after more than one year:

	1997 £m	1996 £m	1995 £m
Bank loans (note 8)	**88.0**	167·3	230·8
Unsecured loan notes (note 8)	**–**	–	1·8
Corporate income taxes payable	**75.3**	65·3	66·7
Payments due to vendors (note 24)	**25.3**	10·5	–
Other creditors and accruals	**32.9**	38·6	29·4
	221.5	281·7	328·7

20 Provisions for liabilities and charges, and contingent liabilities

The movement in the year on provisions comprises:

	Deferred taxation £m	Pension and other £m	Property £m	Long-term incentive plans £m	Total £m
1 January 1996	6·7	50·0	10·3	21·8	88·8
Charged in profit and loss account	–	5·0	–	14·2	19·2
Utilised	–	(2·3)	(2·0)	(12·6)	(16·9)
Transfers	3·0	(0·9)	(8·3)	–	(6·2)
Exchange adjustments	0·2	(6·1)	–	(0·8)	(6·7)
31 December 1996	9·9	45·7	–	22·6	78·2
(Credited)/charged to the profit and loss account	(2·6)	3·6	–	13·4	14·4
New acquisitions	–	1·2	–	–	1·2
Utilised	–	(3·4)	–	(14·1)	(17·5)
Transfers	–	(2·1)	–	–	(2·1)
Exchange adjustments	1·1	(1·7)	–	0·9	0·3
31 December 1997	**8.4**	**43.3**	**–**	**22.8**	**74.5**

20 Provisions for liabilities and charges, and contingent liabilities continued

Deferred taxation

Deferred tax has been provided to the extent that the directors 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. There is no material unprovided deferred tax at 31 December 1997.

	1997 £m	1996 £m	1995 £m
Deferred tax assets:			
Unutilised tax losses	**24.6**	26·8	31·3
Deferred compensation	**28.4**	27·1	26·2
Acquisition related provisions (principally property working capital and staff-related liabilities)	**9.0**	9·9	15·9
Advance corporation tax written off	**4.1**	6·8	6·0
Other	**5.3**	5·0	5·8
Intercompany interest payable not paid	**–**	–	3·7
External interest payable not paid	**–**	2·4	2·3
	71.4	78·0	91·2
Less:			
Provision against deferred tax assets	**55.5**	66·4	77·9
Deferred tax liabilities:			
Accelerated capital allowances	**5.5**	6·7	6·4
Interest receivable	**10.9**	12·7	12·8
Other	**7.9**	2·1	0·8
Temporary timing differences	**24.3**	21·5	20·0
	8.4	9·9	6·7

The provision against deferred tax assets represents a provision for uncertainty as to the realisation of the Group's deferred tax assets. The net decrease in the year in the total provision was £10·9 million (1996: £11·5 million, 1995: £9·2 million).

Substantial portions of unutilised tax losses relate to tax losses arising in the US. These losses do not expire for more than ten years. UK losses may be carried forward for an indefinite period. The life of losses carried forward in other international jurisdictions varies according to local tax laws. Deferred tax liabilities and assets attributable to different tax jurisdictions have not been offset.

Pension provisions and 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.

Pension and other provisions relate primarily to unfunded pension costs which are provided for in the Group's balance sheet, and arise mainly in the United States and Continental Europe.

The Group's pension costs are analysed as follows:

	1997 £m	1996 £m	1995 £m
Defined contribution schemes	**13.2**	15·4	16·9
Defined benefit schemes	**7.0**	7·5	8·2
	20.2	22·9	25·1

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.

Details of actuarial valuations over the last three years are as follows:

	1997 per annum	1996 per annum	1995 per annum
Assumptions			
Return on plan assets	**9%**	9%	9%
Salary increases	**5–8%**	5–8%	4–8%
Pension increases	**3–6%**	3–6%	3–6%
Assessments			
Market value of plan assets at year end	**£128m**	£121m	£99·2m
Value of assets to benefits ratio	**100%**	103%	102%

20 Provisions for liabilities and charges, and contingent liabilities continued

Other provisions

Long-term incentive plans are operated by certain of the Group's subsidiaries, the provision representing accrued compensation to 31 December 1997 that may become payable after more than one year, as described in the Compensation committee report on pages 87 to 93.

Contingent liabilities

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 or on the results of its operations.

21 Fair value of financial instruments

Derivative financial instruments

The fair value of derivatives, based on the amount that would be receivable or (payable) if the Group had sought to enter into such transactions, based on quoted market prices where possible, was as follows:

	31 March 1998		31 December 1997		31 December 1996	
	Swaps £m	**Caps £m**	Swaps £m	Caps £m	Swaps £m	Caps £m
Fair value	**(1·5)**	**n/a**	(0·6)	n/a	2·1	n/a
Book value	**nil**	**n/a**	nil	n/a	nil	n/a

Non-derivative financial instruments

The Group estimates that the aggregate fair value of non-derivative financial instruments at 31 December 1997 does not differ materially from their aggregate carrying values recorded in the consolidated balance sheet.

The Group has used the methods and assumptions detailed below to estimate the fair values of the Group's financial instruments at 31 December 1997.

Cash, accounts receivable, accounts payable, overdrafts and short-term borrowings – considered to approximate to fair value because of the short maturity of such instruments.

Long-term borrowings – considered to approximate to fair value based on available market information and because a proportion has been settled early at par. In addition interest is payable at a variable rate linked to US dollar LIBOR. Considerable judgement is required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that could be realised in a current market exchange.

22 Authorised and issued share capital

	1997 Number m	**1997 £m**	1996 Number m	1996 £m	1995 Number m	1995 £m
Authorised:						
Equity ordinary shares of 10p each	**1,000**	**100·0**	1,000	100·0	1,000	100·0
Equity unclassified shares of $0·10 each	**–**	**–**	–	–	236·8	15·2
Non-equity Convertible Cumulative Redeemable Preference (CCRP) shares of $0·10 each	**–**	**–**	–	–	23·0	1·2
Issued:						
Equity ordinary shares of 10p each	**736·3**	**73·6**	741·4	74·1	737·0	73·7

Movements in each year are shown in note 23.

At the 1996 Annual General Meeting, share owners approved a resolution cancelling all outstanding authorised unclassified shares and CCRP shares.

22 Authorised and issued share capital continued

Share options

As at 31 December 1997, unexercised options totalling 34,700,057 have been granted under the WPP Executive Share Option Scheme as follows:

Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
125,435	4·12	1991 – 1998
99,790	4·06	1991 – 1998
132,888	4·29	1991 – 1998
113,165	5·49	1994 – 1999
119,923	6·20	1994 – 1999
36,938	5·43	1995 – 2000
73,606	3·97	1995 – 2000
632,582	1·33	1996 – 2001
1,051,857	0·56	1997 – 2002
885,462	0·295	1995 – 2002
1,000,000	0·525	1996 – 2003
667,469	1·02	1996 – 2003
199,863	1·15	1997 – 2004
4,457,529	1·19	1997 – 2004
2,229,973	1·08	1998 – 2005
7,084,233	1·54	1998 – 2005
1,104,312	1·54	2000 – 2005
68,967	1·58	1998 – 2005
2,248,303	2·14	1999 – 2006
7,016,518	2·335	1999 – 2006
43,051	2·535	2000 – 2007
5,291,539	2·835	2000 – 2007
16,654	2·78	2000 – 2007

As at 31 December 1997, unexercised options totalling 2,528,700 have been granted under the WPP Worldwide Share Ownership Programme as follows:

Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
2,528,700	2·695	2000 – 2007

In addition, a second grant was made on 31 March 1998 of 2,833,500 options at £3.40 exercisable between 2001 and 2008.

The aggregate status of the WPP Share Option Schemes during 1997 was as follows:

Movement on options granted

1 January 1997 Number	Granted Number	Exercised Number	Lapsed Number	31 December 1997 Number
33,637,466	8,348,844	(2,150,987)	(2,606,566)	37,228,757

Options outstanding

Range of exercise prices £	Weighted average exercise price £	Weighted average contractual life Months
0·295–6·20	1·882	82

The weighted average fair value of options granted, calculated using the Black-Scholes model, were as follows:

	1997	1996	1995
Fair market value	**64·5p**	64·1p	42·9p
Weighted average assumptions:			
Risk-free interest rate	**6·15%**	6·51%	6·16%
Expected life (months)	**36**	36	36
Expected volatility	**24%**	32%	36%
Dividend yield	**0·9%**	0·9%	0·9%

Options are issued at an exercise price equal to market value on the date of grant.

23 Share owners' funds

Movements during the year were as follows:

	Ordinary share capital £m	CCRP share capital £m	Share premium account £m	Goodwill write-off reserve £m	Other reserves £m	Profit and loss account £m	Total £m
Balance at 1 January 1995	**72·0**	**0·6**	**406·9**	**(1,032·9)**	**103·7**	**339·8**	**(109·9)**
1995 movements							
Conversion of Convertible Cumulative Redeemable Preference shares into ordinary shares	1·2	(0·6)	0·4	–	(1·0)	–	–
Other ordinary shares issued	0·5	–	1·7	2·9	–	(1·1)	4·0
Write-off of goodwill arising on consolidation in the year	–	–	–	(10·2)	–	–	(10·2)
Currency translation movement	–	–	–	–	(5·3)	–	(5·3)
Retained profit for the financial year	–	–	–	–	–	59·0	59·0
Balance at 31 December 1995	**73·7**	**–**	**409·0**	**(1,040·2)**	**97·4**	**397·7**	**(62·4)**
1996 movements							
Ordinary shares issued	0·4	–	7·5	–	–	(4·5)	3·4
Write-off of goodwill arising on consolidation in the year	–	–	–	(28·6)	–	–	(28·6)
Currency translation movement	–	–	–	–	22·3	–	22·3
Retained profit for the financial year	–	–	–	–	–	87·6	87·6
Transfers between reserves	–	–	–	–	(1·9)	1·9	–
Balance at 31 December 1996	**74·1**	**–**	**416·5**	**(1,068·8)**	**117·8**	**482·7**	**22·3**
1997 movements							
Ordinary shares issued	0·2	–	5·1	–	–	(2·9)	2·4
Write-off of goodwill arising on consolidation in the year	–	–	–	(91·6)	–	–	(91·6)
Currency translation movement	–	–	–	–	(40·1)	–	(40·1)
Retained profit for the financial year	–	–	–	–	–	100·3	100·3
Share buy-backs	(0·7)	–	–	–	0·7	(18·5)	(18·5)
Balance at 31 December 1997	**73·6**	**–**	**421·6**	**(1,160·4)**	**78·4**	**561·6**	**(25·2)**

Other reserves at 31 December 1997 comprise: capital reserve nil (1996: nil, 1995: £1·9 million), currency translation deficit £97·3 million (1996: £57·2 million, 1995: £79·5 million), revaluation reserve £175·0 million (1996: £175·0 million, 1995: £175·0 million) and capital redemption reserve £0·7 million (1996: nil, 1995: nil). 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 £1,280·7 million.

The terms of issue of the CCRP shares required that they be revalued at the rate of exchange prior to conversion. The exchange differences arising from the revaluation of CCRP shares in previous years were transferred to the currency translation reserve in the Company's financial statements.

24 Acquisitions and disposals

Acquisitions during 1997 did not have a significant impact on the Group's results for the year, nor were there any material disposals. The net movement of £91·6 million on the goodwill write-off reserve includes cash paid during 1997 in respect of acquisitions, and future anticipated payments to vendors of £34·4 million (1996: £13·5 million), based on the directors' best estimates of future obligations, which are dependent on future performance of the interests acquired.

25 Principal operating subsidiary undertakings

A list of the principal operating subsidiary undertakings is given on pages 2 and 3. The Company directly or indirectly holds controlling interests in the issued share capital of these undertakings with the exception of those specifically identified.

mpany balance sheet
at 31 December 1997

Notes		1997 £m	1996 £m	1995 £m
	Fixed assets			
	Tangible assets	**2·9**	1·5	1·2
	Investments	**1,331·7**	974·7	930·7
		1,334·6	976·2	931·9
	Current assets			
	Debtors (including amounts falling due after more than one year)	**83·7**	259·7	357·4
	Cash at bank and in hand	**48·8**	32·4	7·2
		132·5	292·1	364·6
	Creditors: amounts falling due within one year	**(296·8)**	(159·7)	(346·4)
	Net current (liabilities)/assets	**(164·3)**	132·4	18·2
	Total assets less current liabilities	**1,170·3**	1,108·6	950·1
9	**Creditors:** amounts falling due after more than one year	**(336·4)**	(301·1)	(142·3)
	Net assets	**833·9**	807·5	807·8
	Capital and reserves			
30	Called up share capital	**73·6**	74·1	73·7
30	Share premium account	**421·6**	416·5	409·0
30	Capital redemption reserve	**0·7**	–	–
30	Merger reserve	**120·5**	120·5	120·5
30	Currency translation reserve	**(33·2)**	(33·2)	(33·2)
30	Profit and loss account	**250·7**	229·6	237·8
	Total equity capital employed	**833·9**	807·5	807·8

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

Signed on behalf of the Board on 6 May 1998:

M S Sorrell
Group chief executive

P W G Richardson
Group finance director

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 profit of £55·3 million (1996: profit of £4·2 million, 1995: profit of £55·3 million) in respect of the Company.

Notes to the Company balance sheet

26 Fixed asset investments and tangible fixed assets

The following are included in the net book value of fixed asset investments:

	Subsidiary undertakings £m	Own shares £m	Total £m
1 January 1996	920·3	10·4	930·7
Additions	37·1	6·9	44·0
31 December 1996	957·4	17·3	974·7
Additions	347·3	12·7	360·0
Disposals	–	(3·0)	(3·0)
31 December 1997	**1,304·7**	**27·0**	**1,331·7**

Further details of the Company's holdings of own shares are detailed in note 14 to the consolidated balance sheet.

There were no significant movements in tangible fixed assets during the year.

27 Debtors

The following are included in debtors:

	1997 £m	1996 £m	1995 £m
Amounts owed by subsidiary undertakings	**63·1**	217·4	350·8
Other debtors	**20·6**	42·3	6·2
Prepayments and accrued income	**–**	–	0·4
	83·7	259·7	357·4

Included within amounts owed by subsidiary undertakings are loans totalling £16·8 million (1996: £186·4 million, 1995: £235·0 million) which fall due for repayment after more than one year.

28 Creditors: amounts falling due within one year

The following are included in creditors falling due within one year:

	1997 £m	1996 £m	1995 £m
Bank loans and overdrafts	**60·9**	27·2	23·4
Amounts due to subsidiary undertakings	**214·7**	116·9	305·7
Taxation and social security	**–**	–	0·1
Dividends proposed	**10·6**	8·3	6·4
Other creditors and accruals	**10·6**	7·3	10·8
	296·8	159·7	346·4

29 Creditors: amounts falling due after more than one year

The following are included in creditors falling due after more than one year:

	1997 £m	1996 £m	1995 £m
Bank loans	**–**	12·5	29·5
Amounts due to subsidiary undertakings	**321·3**	270·6	104·4
Other creditors and accruals	**15·1**	18·0	8·4
	336·4	301·1	142·3

The following is an analysis of all bank loans and unsecured loan notes by year of repayment:

	1997 £m	1996 £m	1995 £m
Within two and five years	**–**	12·5	29·5

The Company's bank loans and overdrafts form part of the Group's facilities under the Revolving Credit Facility (note 8).

30 Share owners' funds

Movements during the year were as follows:

	Share capital £m	Capital redemption reserve £m	Share premium account £m	Merger reserve £m	Currency translation reserve £m	Profit and loss account £m
Balance at beginning of year	74·1	–	416·5	120·5	(33·2)	229·6
Shares issued	0·2	–	5·1	–	–	–
Retained profit for the financial year	–	–	–	–	–	39·6
Share buy-backs	(0·7)	0·7	–	–	–	(18·5)
Balance at end of year	**73·6**	**0·7**	**421·6**	**120·5**	**(33·2)**	**250·7**

At 31 December 1997 the Company's distributable reserves amounted to £259·0 million. Further details of the Company's movements in share capital are shown in note 23.

Reconciliation to US Accounting Principles

The following is a summary of the estimated material adjustments to profit and ordinary share owners' funds which would be required if US Generally Accepted Accounting Principles (US GAAP) had been applied:

Notes		1997 £m	1996 £m	1995 £m
		For the year ended 31 December		
	Net income before dividends			
	Net income before dividends under UK GAAP	**116.0**	100.0	68.7
	US GAAP adjustments:			
1	Amortisation of goodwill and other intangibles	**(34.1)**	(35.2)	(35.7)
1	Deferred tax items	**–**	7.4	–
1	Executive compensation	**(1.7)**	(5.1)	–
1	Amortisation of July 1992 capital restructuring costs	**–**	–	(7.3)
		(35.8)	(32.9)	(43.0)
	Net income as adjusted for US GAAP	**80.2**	67.1	25.7
	Basic earnings per share as adjusted for US GAAP (p)	10.9	9.2	3.6
	Fully diluted earnings per share as adjusted for US GAAP (p)	10.7	9.0	3.5

Basic earnings per share has been calculated by dividing the net income as adjusted for US GAAP differences, by the weighted average number of ordinary shares in issue during the year, as detailed in note 7 to the consolidated profit and loss account.

The Company applies US APB Opinion 25 and related interpretations when accounting for its stock option plans. Had compensation cost for the Company's stock option plans been determined based on the fair value at the grant date for awards under those plans consistent with the method of SFAS Statement 123 'Accounting for Stock-Based Compensation', the Company's net income and earnings per share under US GAAP would have been reduced to the pro forma amounts indicated below:

	1997	1996	1995
Net income as adjusted for US GAAP:			
As reported (£m)	**80.2**	67.1	25.7
Pro forma (£m)	**77.5**	65.0	24.8
Basic earnings per share per US GAAP:			
As reported (p)	**10.9**	9.2	3.6
Pro forma (p)	**10.5**	8.9	3.4

Further details regarding stock option plans and the fair valuation of option grants can be found in note 22.

Notes		1997 £m	1996 £m	1995 £m
		As at 31 December		
	Share owners' funds			
	Share owners' funds under UK GAAP	**(25.2)**	22.3	(62.4)
	US GAAP adjustments:			
1	Capitalisation of goodwill arising on acquisition (net of accumulated amortisation and amounts capitalised under UK GAAP)	**932.8**	926.7	1,054.7
1	Reversal of revaluation of corporate brand names	**(175.0)**	(175.0)	(175.0)
1	Shares owned by Employee Share Option Plan (ESOP)	**(27.0)**	(17.3)	(10.4)
1	Deferred tax items	**7.4**	7.4	–
1	Proposed final ordinary dividend, not yet declared	**10.5**	8.3	6.4
	Other	**(4.4)**	(4.6)	(4.9)
		744.3	745.5	870.8
2	Share owners' funds as adjusted for US GAAP	**719.1**	767.8	808.4

Gross goodwill capitalised under US GAAP (before accumulated amortisation) amounted to £1,211.2 million (1996: £1,182.3 million, 1995: £1,300.9 million), net of disposals made. The movement in goodwill arises due to the impact of acquisitions made during the year and also its denomination in various currencies, resulting in exchange rate movements against sterling.

Notes to the Reconciliation to US Accounting Principles

1 Significant differences between UK and US Accounting Principles

The Group's financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP) applicable in the UK which differ in certain significant respects from those applicable in the US. These differences relate principally to the following items:

Goodwill and US purchase accounting
Under US and UK GAAP, purchase consideration in respect of subsidiaries acquired is allocated on the basis of fair values to the various net assets, including intangible fixed assets, of the subsidiaries at the dates of acquisition and any net balance is treated as goodwill. In conformity with the preferred treatment under UK GAAP, the Group has fully written off goodwill against share owners' equity. Under US GAAP, goodwill in respect of business combinations accounted for as purchases would be charged against income over its estimated useful life, being not more than 40 years. Accordingly, for US GAAP purposes, the Group is amortising goodwill over 40 years. The Group reviews the carrying value and useful life of goodwill on an annual basis, giving consideration to the results of the entities to which it relates, and no write-down or shortening of the life is considered necessary.

Corporate brand names
Under UK GAAP, the Group carries corporate brand names as intangible fixed assets in the balance sheet. The brand valuation held in respect of the J. Walter Thompson and Hill and Knowlton brand names was booked as a revaluation in the year following acquisition, and is not recognised under US GAAP. The Ogilvy & Mather brand name, acquired as part of The Ogilvy Group, Inc., was booked as an acquisition adjustment to balance sheet assets acquired and is amortised as part of goodwill over 40 years.

Refinancing costs
The UK banking syndicate expenses in respect of the July 1992 restructuring were written off to the profit and loss account in the year in which they were incurred, in accordance with UK GAAP. Under US GAAP such costs must be capitalised and amortised against income over the expected future periods to which the funding relates. Following the refinancing of the Group's facilities in 1995, the balance of the unamortised expenses from the 1992 restructuring were charged against 1995 income for US GAAP purposes.

Dividends
Under UK GAAP, final ordinary dividends are provided in the financial statements on the basis of recommendation by the directors. This requires subsequent approval by the share owners to become a legal obligation of the Group. Under US GAAP, dividends are provided only when the legal obligation to pay arises.

Deferred tax
Under UK GAAP, deferred tax is accounted for to the extent that it is considered probable that a liability or asset will crystallise in the foreseeable future. Under US GAAP, deferred taxes are accounted for on all timing differences and a valuation allowance is established in respect of those deferred tax assets where it is more likely than not that some portion will remain unrealised.

Executive compensation
Under UK GAAP the part of executive compensation satisfied in stock is charged through the profit and loss account at the cost to the Group of acquiring the stock. Under US GAAP such compensation is measured at the fair value of WPP common stock at the date the performance condition is met or the award vests with the employee. Differences occur as the WPP Share Ownership Plan acquires stock before the liability to the employee arises.

Cash flows
Under UK GAAP the Group complies with the Financial Reporting Standard No. 1 Revised 'Cash Flow Statements' (FRS1 Revised), the objective and principles of which are similar to those set out in SFAS 95 'Statement of Cash Flows' (SFAS). The principal difference between the two standards is in respect of classification. Under FRS1 Revised, the Group presents its cash flows for (a) operating activities; (b) returns on investments and servicing of finance; (c) taxation; (d) investing activities; (e) equity dividends paid and (f) financing activities. SFAS 95 requires only three categories of cash flow activity (a) operating; (b) investing; and (c) financing. Cash flows arising from taxation and returns on investment and servicing of finance under FRS1 Revised would be included as a financing activity under SFAS 95. Payments made against provisions set up on the acquisition of subsidiaries have been included in investing activities in the consolidated statement of cash flows. Under US GAAP these payments would be included in determining net cash provided by operating activities.

Shares owned by Employee Share Option Plan (ESOP)
Under UK GAAP, shares purchased by the ESOP are recorded as fixed asset investments at cost less amounts written off. Under US GAAP, these shares are recorded at cost and deducted from share owners' equity.

2 Movement in share owners' funds under US GAAP

	1997 £m	1996 £m	1995 £m
Net income for the year under US GAAP	**80·2**	67·1	25·7
Prior year final dividend	**(8·3)**	(6·4)	(5·4)
Current year interim dividend	**(5·2)**	(4·1)	(3·3)
Retained earnings/(deficit) for the year	**66·7**	56·6	17·0
CCRP debt conversion into ordinary shares of the Company	**–**	–	7·6
Shares issued in consideration for the acquisition of subsidiary undertakings	**–**	–	3·2
Share options exercised	**2·4**	3·4	0·8
Shares owned by Employee Share Option Plan	**(9·7)**	(6·9)	(6·2)
Share buy-backs	**(18·5)**	–	–
Exchange adjustments:			
Revaluation of goodwill	**(51·2)**	(121·1)	58·6
Foreign currency net investment	**(40·1)**	22·3	(5·3)
Executive compensation	**1·7**	5·1	–
New additions to share owners' funds	**(48·7)**	(40·6)	75·7
Share owners' funds at 1 January	**767·8**	808·4	732·7
Share owners' funds at 31 December	**719·1**	767·8	808·4

3 Other US GAAP disclosures: Pension schemes

As a result of their annual reviews, the Group's actuarial advisers have confirmed that, in respect of the Group's defined benefit pension schemes, there are no material underfunded schemes under Statement of Financial Accounting Standards No. 87, 'Employers' Accounting for Pensions' ('FAS 87'). In performing this review, a discount rate of between 7% and 11% was used.

Under Statement of Financial Accounting Standards No. 112, 'Employers' Accounting for Post Employment Benefits' ('FAS 112'), the Group is not currently required to accrue any post-employment obligations.

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

ve-year summary

	1997 £m	1996 £m	1995 £m	1994 £m	1993 £m
ofit and loss					
rnover (gross billings)	**7,287·3**	7,084·0	6,553·1	6,013·7	6,029·9
evenue	**1,746·7**	1,691·3	1,554·9	1,426·9	1,430·7
perating profit	**205·5**	182·4	149·5	120·5	99·7
rofit on ordinary activities before taxation	**177·4**	153·3	113·7	85·3	54·4
rofit attributable to ordinary share owners	**116·0**	100·0	68·7	47·4	22·9
alance sheet					
ixed assets	**564·0**	534·4	524·5	505·6	504·5
et current liabilities	**(286·3)**	(147·6)	(165·0)	(146·7)	(149·2)
Creditors: amounts falling due after more than one year	**(221·5)**	(281·7)	(328·7)	(387·7)	(412·3)
Provisions for liabilities and charges	**(74·5)**	(78·2)	(88·8)	(76·9)	(103·9)
et (liabilities)/assets	**(18·3)**	26·9	(58·0)	(105·7)	(160·9)
et funds/(debt)	**194·7**	159·2	71·4	(38·0)	(83·7)
verage net debt	**(115·0)**	(145·0)	(214·0)	(268·0)	(361·0)

	1997	1996	1995	1994	1993
Our people					
Revenue per employee (£000) [1]	**76·2**	79·9	77·2	74·3	70·1
Operating profit per employee (£000)	**9·0**	8·6	7·4	6·3	4·9
Average headcount	**22,909**	21,166	20,152	19,198	20,416
Share information					
Basic earnings per ordinary share (net basis)	**15·7p**	13·7p	9·5p	7·9p	4·9p
Fully diluted earnings per share (net basis)	**15·4p**	13·3p	9·1p	6·5p	3·4p
Dividends per share	**2·13p**	1·7p	1·31p	1·135p	1·0p
Dividend cover [2]	**7·2**	7·8	6·9	5·7	3·4
Share price – high	**292p**	254p	168p	132p	107p
– low	**237p**	157p	100p	87p	41p
Market capitalisation at year end (£m) [3]	**1,984·4**	1,883·2	1,208·7	785·3	463·2

Notes

1 As noted earlier, the Group's reported revenues were adversely affected by the strength of sterling. As a result the reported revenue per employee in 1997 of £76,200 would have been £83,000 excluding the impact of currencies.

2 Fully diluted earnings per share (net basis) divided by dividends per share.

3 On 6 May 1998, the market capitalisation has increased to £2,890·3 million.

Financial glossary

Term used in annual report	US equivalent or brief description
Advance corporation tax	No direct US equivalent. Tax paid on company distributions recoverable from UK taxes due on income
Allotted	Issued
Cadbury Committee	UK committee set up in 1991 to address the financial aspects of corporate governance
Called-up share capital	Ordinary shares, issued and fully paid
Capital allowances	Tax term equivalent to US tax depreciation allowances
Cash at bank and in hand	Cash
Creditors	Accounts payable
Creditors: amounts falling due after more than one year	Long-term debt
Creditors: amounts falling due within one year	Current liabilities
Debtors	Accounts receivable
Finance lease	Capital lease
Freehold	Ownership with absolute rights in perpetuity
Greenbury Committee	UK committee set up in 1995 to address the issue of directors' remuneration
Interest receivable	Interest income
Hampel Committee	UK committee on corporate governance established in November 1995 to review the implementation of the findings of the Cadbury and Greenbury Committees
Other reserves	Additional paid-in capital or paid-in surplus (distributable in certain circumstances)
Profit	Income
Profit and loss account (statement)	Income statement
Profit and loss account reserve (under 'capital and reserves')	Retained earnings
Profit attributable to ordinary share owners	Net income
Proposed dividend	Dividend declared by directors but not yet approved by share owners
Share capital	Ordinary shares, capital stock or common stock issued and fully paid
Share premium account	Additional paid-in capital or paid-in surplus (not distributable)
Shares in issue	Shares outstanding
Stocks	Inventories
Tangible fixed assets	Property and equipment
Provision against deferred tax assets	Valuation allowance

Auditors' reports

Report of the auditors to the members of WPP Group plc

We have audited the financial statements set out on pages 56 to 70, 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 56 and 57. We have also examined the disclosures relating to the emoluments, share options and long-term incentive scheme interests of the directors referred to within the disclosure of directors' remuneration and interests on pages 82, 84 and 85.

Respective responsibilities of directors and auditors

As described on page 81 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 circumstances of the Company and of the Group, consistently applied and adequately disclosed.

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group at 31 December 1997 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
6 May 1998

Auditors' report on corporate governance matters

In addition to our audit of the financial statements we have reviewed the directors' statement on page 80 concerning the Company's compliance with the paragraphs of the Committee on the Financial Aspects of Corporate Governance Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43 (j) and 12.43 (v).

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

Opinion

With respect to the directors' statements on internal financial control and going concern on pages 80 and 81, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above 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 80 appropriately reflects the Company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43 (j).

Arthur Andersen
Chartered Accountants
London
6 May 1998

Stewardship and remuneration

Board of Directors

Hamish Maxwell Age 71
Chairman (non-executive)
Hamish Maxwell became chairman of WPP in October 1996, after joining the Board in July 1996. Previously he had an international marketing and management career with Philip Morris Companies Inc, serving as chairman and chief executive from 1984 to 1991. He represents successful experience in marketing, finance and the media. Under his leadership, Philip Morris underwent fundamental change involving some of the largest takeovers the consumer goods industry has known: General Foods in 1985, Kraft in 1988 and Jacobs-Suchard in 1990. He is also a non-executive director of Bankers Trust and Sola International.

Martin Sorrell Age 53
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 Colefax & Fowler Group plc.
e-mail: msorrell@wpp.com

Paul Richardson Age 40
Group finance director
Paul Richardson became Group finance director of WPP in December 1996 after four years with the Company as director of treasury. He is responsible for the Group's worldwide finance function, including external reporting, taxation, procurement, property, treasury and internal audit. Previously he spent six years with the central team of Hanson plc financing major acquisitions and disposals. He is a chartered accountant and member of the Association of Corporate Treasurers. He is a non-executive director of Chime Communications PLC.
e-mail: prichardson@wpp.com

Brian Brooks Age 42
Group director of human resources
Brian Brooks joined WPP in September 1992. He is responsible for co-ordinating the recruitment and development of senior talent throughout the Group, as well as career and succession planning for key people. He manages all WPP stock ownership plans, as well as total remuneration programs, in partnership with each WPP company. Previously he was a partner in Towers Perrin in New York and London. He is a lawyer and is admitted to practise law in the United States.
e-mail: bbrooks@wpp.com

Eric Salama Age 37
Group director of strategy
Eric Salama joined the parent company of WPP in 1994 and the Board in July 1996. He is responsible for developing and implementing the Group's strategy including practice development, integrated teams for clients, management training and the creation of new client offers. He is an adviser to the UK Government in the fields of creative and media industries and education. Previously he was joint managing director of The Henley Centre, a WPP company.
e-mail: esalama@wpp.com

Gordon Sampson Age 74
Chief executive, manufacturing
Gordon Sampson founded the original Wire and Plastic Products company in 1958 manufacturing goods for consumer markets. He remains chief executive of the manufacturing company and, since 1989, has been deputy chairman of WPP.

John Quelch Age 46
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 and Dean-designate of London Business School. 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 US Office Products Company, USA Floral Products Inc. and Pentland Group plc.

Jeremy Bullmore Age 68
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 Age 68
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 is also the non-solicitor chairman of Mishcon de Reya. He has extensive experience of a broad range of businesses, including television broadcasting, high technology industries, retailing, publishing, printing, biotechnology, electronics and pharmaceuticals.

Stanley Morten Age 54
Non-executive director
Stanley Morten was appointed a director in 1991. He is the chief operating officer of Punk, Ziegel & Company, a New York-based investment banking firm with a focus on selected emerging growth sectors in the healthcare and technology industries. He previously was managing director of the equity division of Wertheim Schroder & Co., Inc. in New York.

Joel Smilow Age 65
Non-executive director
Joel Smilow has served as a Special Adviser to WPP since December 1995. He is a former chairman and chief executive officer of Playtex Products Inc., from which he retired in July 1995. He is also a non-executive director of Caladon Group Inc. He was appointed on 23 April 1998.

Senior WPP executives and advisers to the Board

Parent company senior executives

Company secretarial and legal
W Capes (Company secretary)
F Calow

Specialist communications services
F Zweig
E Howe
Sampson
Herrick

Group strategy and practice development
C Scott

Communications and investor relations
McEwan
H N Hall

Financial control and management reporting
Barker
Drefs
P Douglas
Winters

Internal audit
E Read
Thomson

International tax
M Roberts
O Neuman
L Rooker

International treasury
Meehan

Property
M Burkitt
Murphy

Procurement
E Williams

Information technology
A S Nicoll
D L Stebbings
Telling

Mergers and acquisitions
H N Hall
C Scott
A Mellman

Merchant bankers

Goldman Sachs International Ltd
Peterborough Court
133 Fleet Street
London
EC4A 2BB

HSBC Investment Bank
10 Lower Thames Street
London
EC3R 6AE

Wasserstein Perella & Co., Inc.
27th Floor
31 West 52 Street
New York
NY 10019

Merrill Lynch International
20 Farringdon Road
London
EC1M 3NH

Legal advisers

Allen & Overy
One New Change
London
EC4M 9QQ

Davis & Gilbert
1740 Broadway
New York
NY 10019

Edge & Ellison
18/19 Southampton Place
London
WC1A 2AJ

MacFarlanes
10 Norwich Street
London
EC4A 1BD

Stockbrokers

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

Merrill Lynch International Corporate Broking
20 Farringdon Road
London
EC1M 3NH

Auditors and accountancy advisers

Arthur Andersen
1 Surrey Street
London
WC2R 2PS

Coopers & Lybrand
32 rue Guersant
75833 Paris Cedex
France

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

Executive remuneration consultants

Arthur Andersen
1 Surrey Street
London
WC2R 2PS

Towers Perrin
335 Madison Avenue
New York
NY 10017-4605

SCA Consulting
152 West 57th Street
New York
NY 10019

Property advisers

James Andrew International
72/75 Marylebone High Street
London
W1M 3AR

Knight Frank
Kings House
36 King Street
London
EC2V 8QQ

Directors' responsibilities

Corporate governance

During 1997, 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 75.

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 currently do not participate in the Company's share option schemes. A resolution is to be proposed at the Annual General Meeting to enable the Company to satisfy part of the remuneration of non-executive directors in shares in the capital of the Company. They take an active role on Board committees, which include:

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 and S W Morten.

Compensation committee

The Compensation committee, whose report is set out on pages 87 to 93, reviews the remuneration and terms of employment of executive directors and senior executives of the Company, and directors and senior executives in operating companies. The committee comprises the following non-executive directors: Messrs S W Morten (chairman), H Maxwell and J A Quelch.

Nomination committee

The Nomination committee considers appointments to the Board of Directors and makes recommendations in this respect to the Board. The committee comprises the following directors: Messrs H Maxwell (chairman), B J Brooks, S W Morten, J A Quelch and M S Sorrell.

Senior independent non-executive director

As recommended in the Report of the Hampel Committee on Corporate Governance, the Company has appointed a senior independent non-executive director to be available to deal with concerns regarding the Company, where it would be inappropriate for such concerns to be conveyed through the chairman or chief executive. The director appointed to this role is J A Quelch.

Internal financial controls

The Board of Directors has overall responsibility for the system of internal financial control throughout the Group. In the context of the size and complexity of this system, it can only provide reasonable but not absolute assurance against material misstatement 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 updates a three-year strategic plan annually which incorporates financial objectives. These are reviewed by the Group's management and are agreed with the chief executive 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 units' 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 four times 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 each operating unit completes a Self-Certification Questionnaire confirming compliance with key financial controls and procedures. These questionnaires are reviewed by the internal auditors and the results reported to the Audit committee.

Directors' responsibilities 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, capital expenditure and legal matters.

Monitoring of the system of internal financial 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.

Going concern

After reviewing the 1998 three-year plan and 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.

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 departure 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 ('the Compensation committee') which is comprised wholly of non-executive directors. The Compensation committee is advised by independent executive remuneration consultants.

The compensation of the Chairman and other non-executive directors is determined by the Board, which is similarly advised by independent executive remuneration consultants.

The components of executive directors' remuneration and the basis on which these are established are described in the Report of the Compensation committee on pages 87 to 93.

Remuneration of the directors was as follows:

							Long-term incentive plans		Pension contributions	
Chairman	Location	Salary and fees £000	Other benefits £000	Short-term incentive plans (annual bonus)[1] £000	1997 Total £000	1996 Total £000	1997 Total £000	1996 Total £000	1997 Total £000	1996 Total £000
H Maxwell (appointed 1 October 1996)	UK/USA	100	–	–	100	25	–	–	–	–
Executive directors										
M S Sorrell	UK/USA	717	23	609	1,349[2]	1,489	1,219[3]	982	316	318
B J Brooks	USA	153	3	84	240	250	831[4]	183	14	18
P W G Richardson (appointed 5 December 1996)	UK	180	21	90	291	24	87[5]	115	18	1
E R Salama (appointed 15 July 1996)	UK	140	13	82	235	86	47[5]	–	14	5
G C Sampson	UK	69	7	–	76	73	–	–	–	–
Non-executive directors										
J J D Bullmore[6]	UK	78	18	–	96	90	–	–	–	–
J B H Jackson	UK	20	–	–	20	20	–	–	–	–
Sir Paul Judge (retired 30 June 1997)	UK	10	–	–	10	20	–	–	–	–
S W Morten	USA	21	–	–	21	22	–	–	–	–
J A Quelch[6]	USA	65	33	–	98	122	–	–	–	–
Others retired or resigned in 1996	–	–	–	–	–	447	–	1,483	–	80
Total remuneration		**1,553**	**118**	**865**	**2,536**	**2,668**	**2,184**	**2,763**	**362**	**422**

Notes

1 Amounts included in short-term incentive plans represent bonuses in respect of 1997 performance, paid in 1998.

2 The amount of salary and fees comprises the fees payable under the UK Agreement with JMS Financial Services Limited ('JMS') and the salary payable under the US Agreement referred to on page 90. In 1997, as in previous years, JMS discharged all relevant UK national insurance costs attributable to the provision of the services of Mr Sorrell under the UK Agreement. The salary and pension contribution payable under the US Agreement has been converted into £ sterling at $1·6831 to £1.

3 The amount of £1·219 million is in respect of phantom options granted in relation to 1993. In addition the performance requirements were satisfied on 18 March 1997 in respect of the second tranche of the Capital Investment Plan and the first tranche of the Notional Share Award Plan (see page 90). The value of these tranches was £3·1 million and £1·5 million respectively (265·5p per share on 18 March 1997). These amounts are not shown in the above table as the ultimate value will depend on the share price in September 1999.

4 This amount represents a payment under the performance share plan of £131,702 and the gain on the exercise of share options of £699,163.

5 This amount represents a payment under the performance share plan.

6 Messrs Bullmore and Quelch have consulting arrangements with the Company in addition to their respective fees as non-executive directors.

Directors' interests

Ordinary shares

Directors' interest in the Company's share capital, all of which were beneficial, were as follows:

	At 1 Jan 1997 or date of appointment if later	Shares acquired through long-term incentive plan awards in 1997[1]		Other interests as at 31 Dec 1997 inc. shares purchased in 1997[1]	At 31 Dec 1997	Shares acquired through long-term incentive plan awards in 1998		Other interests acquired since 31 Dec 1997[2]	At 6 May 1998
		Vested	(sold)			Vested	(sold)		
B J Brooks	139,858	428,048	(260,048)	–	307,858	48,869	(43,989)	–	312,738
J J D Bullmore	20,065	–	–	–	20,065	–	–	–	20,065
J B H Jackson	12,500	–	–	–	12,500	–	–	–	12,500
H Maxwell	35,000	–	–	–	35,000	–	–	–	35,000
S W Morten	20,000	–	–	–	20,000	–	–	–	20,000
J A Quelch	10,000	–	–	–	10,000	–	–	–	10,000
P W G Richardson	–	25,000	–	291,176	316,176	32,265	(5,265)	–	343,176
E R Salama	298,215	–	–	77,277	375,492	17,559	–	–	393,051
G C Sampson	550,000	–	–		550,000	–	–	4,313	554,313
J E Smilow	100,000	–	–	–	100,000	–	–	–	100,000
M S Sorrell	4,012,501	386,420	–	5,179,117	9,578,038	–	–	1,757,688	11,335,726

Notes

1 In the case of Messrs Richardson and Salama, this represents their respective interests in 291,176 and 67,277 unexercised options granted under the WPP Executive Share Option Scheme or under an ESOP in previous periods and which had become exercisable prior to 31 December 1997. These interests are not included in the first column showing interests at 1 January 1997, but are referred to in the table of directors' interests in share options on page 84. In the case of Mr Salama this also includes 10,000 shares purchased during 1997. In the case of Mr Sorrell this includes 100,000 shares purchased during 1997; interest or rights in 1,571,190 and 577,391 unexercised phantom options granted in relation to 1993 and 1994 respectively, as referred to on page 90; 2,345,696 shares for the first two tranches of the Capital Investment Plan and 584,840 shares in respect of the first tranche of the Notional Share Award Plan, in respect of which, in each case, the performance conditions had been satisfied prior to 31 December 1997.

2 Represents in the case of Mr Sampson, his interest in unexercised options granted under the WPP Executive Share Option Scheme in previous periods and which became exercisable in April 1998. In the case of Mr Sorrell his interest in 1,172,848 shares for the third tranche of the Capital Investment Plan and 584,840 shares for the second tranche of the Notional Share Award Plan in respect of which, in each case, the performance conditions were satisfied on 1 May 1998.

3 Each of the executive directors has a technical interest as an employee and potential beneficiary in one of the Company's three ESOPs in shares in the Company held under the relevant ESOP. At 31 December 1997 the Company's ESOPs held in total 16,456,119 shares in the Company (1996: 13,748,628 shares).

4 Save as disclosed above and in the Compensation committee report, no director had any interest in any contract of significance with the Group during the year.

Share Options

Outstanding options granted to the directors are as follows:

	At 1 Jan 1997 Number	Granted/ (lapsed) 1997 Number	Exercised and realised 1997 Number	Exercised and retained 1997 Number	At 31 Dec 1997 and 6 May 1998 Number	Exercise dates Commencement	Expiry	Exercise price per share	Market price per share on date of exercise
B J Brooks	229,331	–	154,331	75,000	–	Sep 1996	Sep 2003	102·0p	280·0p
	180,717	–	105,717	75,000	–	Sep 1997	Sep 2004	119·0p	280·0p
	68,967	–	–	–	68,967	Dec 1998	Dec 2005	158·0p	n/a
P W G Richardson	100,000	–	–	–	100,000	Jan 1996	Jan 2000	40·0p	n/a
	102,941	–	–	–	102,941	Sep 1996	Sep 2003	102·0p	n/a
	88,235	–	–	–	88,235	Sep 1997	Sep 2004	119·0p	n/a
	32,468	–	–	–	32,468	Sep 1998	Sep 2005	154·0p	n/a
	24,497	–	–	–	24,497	Sep 1999	Sep 2006	233·5p	n/a
E R Salama	67,227	–	–	–	67,277	Sep 1997	Sep 2004	119·0p	n/a
	90,909	–	–	–	90,909	Sep 1998	Sep 2005	154·0p	n/a
G C Sampson	4,313	–	–	–	4,313	Apr 1998	Apr 2005	108·0p	n/a

Share options were granted under the WPP Executive Share Option Scheme or under an ESOP in which directors and other senior executives participate. These options were granted at the market price at the time of grant.

2,196,190 phantom options were granted to JMS in relation to 1993 at a base price of 52·5p per share, exercisable between April 1996 and April 2003 and 577,391 in relation to 1994 at a base price of 115p per share, exercisable between September 1999 and April 2004. On 21 April 1997, JMS exercised 625,000 phantom options granted in relation to 1993 at a price of 247·5p resulting in a payment after deduction of the base price of 52·5p of £1,218,750. This leaves 1,571,190 unexercised phantom options granted in relation to 1993.

The closing share price at 31 December 1997 was 269·5p and the share price during the year ranged between 236·5p and 292p.

Share options existing 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.

er long-term incentive plan awards[1]

g-term Incentive Plan awards granted to directors are as follows:

	At 1 Jan 1997	Granted/ (lapsed) 1997	Vested 1997	At 31 Dec 1997	Granted 1998	Vested 1998	At 6 May 1998	Performance period	Price per share on valuation date[2]
	Number	Number	Number	Number	Number	Number	Number		
J Brooks	72,000	–	72,000	–	–	–	–	1 Jan 1994–31 Dec 1996	254·0p
	48,869	–	–	48,869	–	48,869	–	1 Jan 1995–31 Dec 1997	269·5p
	73,933	–	–	73,933	–	–	73,933	1 Jan 1996–31 Dec 1998	n/a
	–	60,864	–	60,864	–	–	60,864	1 Jan 1997–31 Dec 1999	n/a
	–	–	–	–	46,728	–	46,728	1 Jan 1998–31 Dec 2000	n/a
W G Richardson	45,370	–	45,370	–	–	–	–	1 Jan 1994–31 Dec 1996	254·0p
	32,265	–	–	32,265	–	32,265	–	1 Jan 1995–31 Dec 1997	269·5p
	42,172	–	–	42,172	–	–	42,172	1 Jan 1996–31 Dec 1998	n/a
		67,925	–	67,925	–	–	67,925	1 Jan 1997–31 Dec 1999	n/a
	–	–	–	–	55,513	–	55,513	1 Jan 1998–31 Dec 2000	n/a
R Salama	17,559	–	–	17,559	–	17,559	–	1 Jan 1995–31 Dec 1997	269·5p
	49,438	–	–	49,438	–	–	49,438	1 Jan 1996–31 Dec 1998	n/a
	–	56,604	–	56,604	–	–	56,604	1 Jan 1997–31 Dec 1999	n/a
	–	–	–	–	46,261	–	46,261	1 Jan 1998–31 Dec 2000	n/a
M S Sorrell [3]	386,420	–	386,420	–	–	–	–	1 Jan 1994–31 Dec 1996	254·0p
	6,445,912	–	–	6,445,912	–	–	6,445,912	4 Sep 1994– 4 Sep 1999	n/a

Notes

1 All awards shown on this table, except the 6,445,912 shares referred to in note 3, were made under the performance share plan (formerly performance unit plan), details of which can be found on page 88.

2 Valuation date is 31 December at the end of the relevant performance period.

3 The award of 386,420 performance shares represents entitlement to the cash equivalent of the market value of the equivalent number of ordinary shares at the date of vesting. The 6,445,912 shares represent the maximum number of shares, or cash equivalent of shares which could vest, assuming that all of the criteria specified were met under the Capital Investment Plan and the Notional Share Award Plan. Details of these two Plans are set out on page 90. Any such shares and awards in respect of which the criteria are met, must be retained until September 1999 and consequently their value cannot be established until that time. As of 6 May 1998, the performance conditions in respect of the first three tranches of the Capital Investment Plan and the first two tranches of the Notional Share Award Plan had been satisfied. In view of the retention requirements referred to above the number of shares, or cash equivalent of shares, for which the performance conditions have been satisfied by 6 May 1998 has not been shown in the above table. Under arrangements made with Mr M S Sorrell relating to the payment on his behalf of US withholding tax under the Capital Investment Plan and pension payments made under the US Agreement, WPP Group USA, Inc has made payments of which the maximum amount outstanding during the year was $453,568 and which remained outstanding at 31 December 1997.

Other statutory information

Re-election of directors
Details of the directors who under the Articles of Association of the Company are to retire and who offer themselves for re-election are set out in the Notice of Annual General Meeting.

Substantial share ownership
As at 6 May 1998, the Company has been notified of the following interests of 3% or more in the issued ordinary share capital of the Company:

	%
Morgan Stanley Asset Management Limited	10·97
Scudder Stevens & Clark Inc.	6·21
Tiger Management Corporation	5·03

The disclosed interests of all of the above refer to the respective combined holdings of those entities and to interests associated with them.

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

Profits and dividends
The profit on ordinary activities before tax for the year was £177·4 million (1996: £153·3 million). The directors recommend a final ordinary dividend of 1·43p (net) (1996: 1·144p) per share to be paid on 13 July 1998 to share owners on the register at 19 June 1998 which, together with the interim ordinary dividend of 0·7p (1996: 0·556p) per share paid on 24 November 1997, makes a total of 2·13p (net) for the year (1996: 1·7p). The retained profit for the year of £100·3 million is carried to reserves.

Group activities
The principal activity of the Group continues to be the provision of communications services worldwide. The Company acts only as a parent 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 12, 13 and 26.

Share capital
Details of share capital movements are given in note 23 on page 68.

Charitable and political contributions
The Group contributed £0·2 million to UK charities in 1997 (1996: £0·3 million). No contributions were made to political parties.

Supplier payment policy
The Group's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction, and to ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. The aggregate amount owed to trade creditors by the Company in the year was negligible, whilst average trade creditors for the Group, expressed as a number of days, were 47 (1996: 44).

Year 2000 compliance
In common with most organisations and as part of an ongoing process of risk management, WPP is conducting a comprehensive review of its systems, products and services, suppliers, clients and building facilities to identify its exposure to any adverse impact of Year 2000 non-compliance.

WPP has initiated a group-wide programme that seeks to achieve its Year 2000 compliance objectives by 30 June 1999 by repairing or replacing non-compliant systems, products and services, and developing appropriate contingency plans. WPP is also monitoring closely the progress of its suppliers towards achieving Year 2000 compliance, especially those providing data, IT support and transaction processing.

WPP has not yet identified any area of Year 2000 non-compliance that presents a major risk to its business or that of its clients. WPP does not currently expect the cost of achieving its Year 2000 compliance objectives to be material to the Group's earnings and such cost will be expensed as incurred.

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

By Order of the Board
M W Capes
Secretary
6 May 1998

Compensation committee report

This report by the WPP Group plc Compensation committee on behalf of the Board conforms with the Listing Rules of the London Stock Exchange. Additional information on executive remuneration similar to a US proxy disclosure is also included in this report.

The Compensation committee considers that throughout the year under review the Company has complied with Section A of the best practice provisions annexed to the Listing Rules and that full consideration has been given to the best practice provisions set out in Section B of these Rules in determining total remuneration for directors and senior executives during 1997. The Reports of the Auditors on the financial statements set out on page 75 confirms that the scope of their reports cover the disclosures contained or referred to in this Report that are specified for their examination by the London Stock Exchange.

Details of each individual director's remuneration and of their beneficial holdings of the Company's shares and share options are set out on pages 82 to 85.

Role of the Compensation committee

The Compensation committee is comprised only of non-executive directors, currently Messrs S W Morten (Chairman of the committee), Hamish Maxwell and John Quelch. No member of the Compensation committee has any personal financial interest, other than as share owners, in the matters to be decided, no potential conflicts of interest arising from cross-directorships and no day-to-day involvement in running the Company's business.

The Compensation committee, which seeks the advice of independent remuneration consultants, is responsible for establishing and overseeing the implementation of remuneration policy for the Group, with specific reference to the following:

- assessment of competitive practices and determination of competitive positioning;
- base salary levels;
- annual and long-term incentive awards;
- policy and grants relating to WPP share ownership (in this report referred to as 'WPP stock'); and
- pensions and executive benefits.

The Compensation committee determines awards under annual and long-term incentive plans and awards of WPP stock, for Group employees who are paid a base salary of $150,000 or more.

The Compensation committee determines the remuneration of the Group chief executive, a summary of which is set out on page 90, on the basis of a comparison with the chief executives of other global, multi-agency communications companies, including the Omnicom Group and The Interpublic Group of Companies. The remuneration of the other executive directors is based on comparable positions in multinational companies of a similar size and complexity.

The criteria established for each element of total remuneration are set out on the following pages.

Remuneration policy for executive directors and senior executives

The remuneration programs established for executives of the Group's operating companies and the parent company are designed to provide competitive total remuneration opportunities which will attract, retain and reward the best talent available in the communications services industry. A significant portion of total remuneration 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. In addition, the total remuneration program includes significant opportunities to acquire WPP stock consistent with the Group strategy of building a strong ownership culture.

The following comprise the principal elements of executive remuneration:

I Base salaries

Base salary levels are established by reference to the median base salary for similar positions in directly comparable businesses. In the case of the parent company, this includes other global services companies and, for J. Walter Thompson Company and Ogilvy & Mather Worldwide, the competitive market includes other major multinational advertising agencies. 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 and business unit performance, level of experience and scope of responsibility.

Salary levels for executives are reviewed every 18, 24 or 36 months, depending on the level of base salary. Executive salary adjustments are made on the advice of the chief executive officer of the operating company. Recommendations concerning the remuneration of operating company chief executive officers and parent company executives are made by the Group chief executive to the Compensation committee.

II Annual incentive remuneration

Annual incentives are paid under plans established for each operating company and for executives of the parent company. Group-wide, there are approximately 3,000 participants in annual incentive plans, or 13% of all employees in the Group. In the case of the Group chief executive and other parent company executives, the total amount of bonus payable is based on criteria which include the achievement of Group operating profit and operating cash flow targets which are based on budgets approved by the Board and targets established by the Compensation committee. In the case of each operating company, performance targets for determining the overall level of annual bonuses are agreed each year in one or both of the following areas:

- operating profit; and
- operating profit margin.

Individual bonuses are determined on the basis of achievements against individual performance objectives, encompassing key strategic and financial performance criteria, including:

- operating profit;
- profit margin;
- staff costs to revenue;
- revenue growth and conversion; and
- level of co-operation among operating companies.

In each case, the annual incentive objectives relate to the participant's own operating company, division, client or functional responsibility.

Each executive's annual incentive opportunity is defined at a 'target' level for the full achievement of objectives and a 'maximum' level for outstanding performance in excess of target. The target level for the Group chief executive is 67% of base fees/salary and the maximum level is 100%. For other Group executive directors the target is 40% of base salary and the maximum is 60%. For a limited number of the most senior executives in the two major advertising agencies, the target level is 50% of base salary and the maximum level is 75%.

III Long-term incentive remuneration

Long-term incentives comprise a significant portion of total remuneration for senior executives in the parent company and each operating company. Group-wide, approximately 500 or 2% of all employees participate in a long-term incentive plan.

Parent company

The only long-term incentive program for executive directors (excluding the Group chief executive) consists of annual grants of WPP performance shares. The value of each performance share is equivalent to one ordinary WPP share. The number of shares vesting over each three-year performance period is dependent on the growth of WPP's total share owner return relative to the growth of total share owner return of seven major publicly traded marketing services companies. These companies are Asatsu, Cordiant, Grey Advertising, The Interpublic Group of Companies, Omnicom Group, Havas Advertising and True North Communications. Where the Group's total share owner return is below the median level of the peer group, none of the performance shares vest. At median performance, 50% of the performance shares vest, with higher percentages vesting for superior performance up to 100% if WPP ranks at least equal to the second ranking peer company.

Over all previous performance periods (1993-95 to 1995-97), WPP's performance ranked first among the peer group companies. Contingent grants of performance shares for the 1996-98, 1997-99 and 1998-2000 periods range from 25% to 80% of 1996-98 base salary for all participants.

Operating companies

Senior executives of most Group operating companies participate in long-term incentive plans, which provide awards in cash and restricted WPP stock for the achievement of three-year financial performance targets. These plans operate on a rolling three-year basis with, for example, an award becoming payable in March 1998 under the 1995-97 long-term incentive plans. The value of payments earned by executives over each performance period is based on the achievement of targeted improvements in two or more of the following performance measures:

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

Depending on the plan, the stock portion of each payment ranges up to 50%. Restrictions on the sale of this stock are lifted after one year in respect of 50% of the shares and after two years for the balance, assuming the executive remains employed in the Group.

In addition, some executives also receive annual grants of WPP stock options through their membership of the WPP Group '100 Club' or '300 Club'. This recognises their contributions to the achievement of WPP's strategic aims, including business co-operation across operating companies. All members of the 100 and 300 Clubs, including the chief executive officer of each operating company, receive an annual grant of fair market value WPP stock options, which are exercisable either three or five years from the grant date assuming that specific performance conditions are met (including achievement of the employing company's long-term targets). Each year the grant value (number of shares times fair market value at the grant date) of these awards ranges from approximately 10% to 100% of base salary.

Executive Stock Ownership Policy

During 1996, the Company introduced stock ownership goals for the most senior executives in the Group. These range from 50% to 400% of salary. Stock option grant levels will vary after 1999 depending on whether an individual's ownership goals have been achieved.

Executive Stock Option Plan and Worldwide Ownership Plan

In June 1996, the Company obtained the authority to grant fair market value stock options under the 1996 Executive Stock Option Plan. This Plan is used to make option grants to members of the 100 and 300 Clubs and key employees of the parent company, excluding executive directors and the Group chief executive.

Additionally, the Company has broadened stock option participation by introducing the Worldwide Ownership Plan for all employees of 100%-owned Group companies, with at least two years' service, in order to develop a stronger ownership culture and greater knowledge of Group resources. As at 6 May 1998 options under this Plan had been granted to 9,971 employees over 5,027,325 ordinary shares of the Company.

Retirement benefits

The form and level of company-sponsored retirement programs varies depending on historical practices and local market considerations. The level of retirement benefits is considered by the Compensation committee when reviewing executive remuneration levels.

In the two markets where the Group employs the largest number of people, the United States and the United Kingdom, pension provision generally takes the form of defined contribution benefits, although the Group still maintains one defined benefit plan in the US and three defined benefit plans in the UK. In each case, these pension plans are provided for the benefit of employees in specific operating companies, and in the case of the UK plans, are closed to new entrants.
All pension coverage for the parent company's executive directors is on a defined contribution basis and neither annual nor long-term incentive payments are pensionable under any Company retirement plan. Details of pension contributions for the year under review in respect of executive directors are set out on page 82.

Notice periods

Each of the executive directors is bound to provide his services under a contract of service or other arrangements, details of which, including the notice periods, are set out on page 90.

The Compensation committee considers that there are special circumstances in respect of the notice period applicable to the Group chief executive, which is for a fixed term of three years from 1 September 1997, renewable for a term of three years on or before 1 September each year.

The contractual arrangements relating to the Chairman are set out on page 90.

Directors' service contracts

The Group chief executive: Mr M S Sorrell

Mr Sorrell's services to the Group in the UK are provided by JMS Financial Services Limited ('JMS') and in addition Mr Sorrell is directly employed by WPP Group USA, Inc. relating to his activities in the USA. Taken together, the agreement with JMS ('the UK Agreement') and the agreement with Mr Sorrell directly ('the US Agreement') provide for the following remuneration all of which is disclosed on pages 82 to 85:

- annual salary and fees of £716,000;
- annual pension contributions of £316,000;
- short-term incentive (annual bonus);
- the Capital Investment Plan;
- the Notional Share Award Plan.

In addition JMS was entitled to phantom options linked to the WPP share price, granted in relation to 1993 and 1994 as disclosed on page 84. No further phantom options have been granted.

The Capital Investment Plan (CIP)

The CIP provides Mr Sorrell with a capital incentive over a five-year period with effect from 4 September 1994.

The CIP required Mr Sorrell to invest approximately £2 million in order to acquire 1,129,305 ordinary shares which were required to be retained until at least 4 September 1996, and a further 747,252 ordinary shares which are to be retained until 4 September 1999. If specific performance criteria are achieved, which will result in substantially increased share owner value, Mr Sorrell will become entitled to certain Performance Shares, all of which have to be retained until 4 September 1999. The maximum number of Performance Shares to which Mr Sorrell could become entitled under the CIP is 4,691,392 in four equal tranches of 1,172,848. These Performance Shares have already been acquired by an ESOP at a total cost of approximately £5·5 million.

As at 6 May 1998, the performance criteria had been met in respect of the first three tranches of Performance Shares. The performance criteria are based on the WPP share price maintaining over a sustained period, threshold price levels of 198p, 230p, 265p and 304p respectively for each tranche. In addition, the WPP share price must outperform the FTSE 100 Index and the Company's earnings per share growth must exceed Retail Price Index growth plus 1% per annum over the period until the price threshold is satisfied.

The Notional Share Award Plan

Under the Notional Award Plan, JMS has a contingent right to the value of up to 1,754,520 Notional Shares on 4 September 1999 based on terms, conditions and performance criteria which correspond with those of the CIP referred to above. However, under the Notional Award Plan the first WPP target share price to be achieved is 230p whilst under the CIP it is 198p, the second target price under the CIP being 230p.

As at 6 May 1998 the performance criteria had been met in respect of the first two share price levels of 230p and 265p respectively.

Both the CIP and the Notional Award Plan contain detailed provisions concerning special circumstances, such as death, disability, dismissal with or without cause and change of control.

Other executive directors

Mr B J Brooks, the Group human resources director is employed under a service contract dated 1 June 1993 with a 12-month notice period. Mr P W G Richardson, the Group finance director is employed under a service contract dated 8 January 1997 with a 12-month notice period. Mr E R Salama, the Group strategy director is employed under a service contract dated 1 April 1997, also with a 12-month notice period.

The Chairman

The Chairman, Mr H Maxwell is subject to a contract dated 9 September 1996 for a period expiring on 30 September 1999, subject to Mr Maxwell being able to terminate by giving not less than three months' notice.

ompensation of 'executive officers'

e following tables set forth compensation details for the Group chief executive and each of the other five most highly compensated ecutive officers in the Group as at 31 December 1997 (the 'executive officers'). As used in this statement, the 'executive officers' are emed to include executive directors of the Company, or an executive who served as the chief executive officer of one of the Group's major erating companies.

This information covers compensation for services rendered in all capacities and paid in each of the two calendar years ended December 1996 and 1997. Incentive compensation paid in 1998 for performance in 1997 and previous years, is not included in these les, consistent with US reporting requirements.

997 executive remuneration

						Long Term Compensation			
me	Principal position	Year	Salary $000	Bonus (1) $000	Other annual compensation (2) $000	Share options SARs and phantom shares (3) Number	Restricted shares Number	LTIP payments $000	All other compensation (4) $000
S Sorrell	Group chief executive WPP Group	1997	1,172	1,202	38	–	–	1,947	518
		1996	1,146	1,102	33	–	–	1,533	491
Lazarus	Chairman/ Chief executive officer Ogilvy & Mather Worldwide	1997	750	750	21	113,862	264,240	183	82
		1996	750	750	20	553,281	14,761	128	82
B Manning (5)	Chairman J. Walter Thompson Company	1997	990	–	30	–	–	–	114
		1996	990	–	30	–	–	–	147
C Jones	Chief executive officer J Walter Thompson Company	1997	575	380	42	113,862	22,586	290	66
		1996	400	275	42	204,001	39,471	234	16
H Paster	Chairman and Chief executive officer Hill and Knowlton	1997	550	275	17	83,499	–	–	111
		1996	550	275	17	161,630	–	–	75
P Barnard	Chairman Kantar Group	1997	328	180	17	49,383	12,171	158	96
		1996	328	164	17	107,066	19,824	183	96

Notes

1 Represents short-term incentive awards paid during calendar years 1996 and 1997 in respect of the prior year's incentive plans.

2 Includes the value of company cars, club memberships, executive health and other benefits and supplemental executive life insurance.

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 are analogous to a share option.

4 Includes accruals during each calendar year under consideration, under defined contribution retirement plans and defined benefit retirement arrangements. The annual value of defined benefit retirement plans is not included in this table.

5 Amounts of $1 million were accrued for Mr B Manning in each year under an individual incentive compensation arrangement established in 1987.

Options granted in 1997

	Stock options, granted (number of shares)	% of total options granted by Company in 1997	Exercise price (£ per share)	Expiry date	Potential realisable value at assumed annual rates of stock price appreciation for option term 0% $	5% $	10% $
M S Sorrell	–	–	–	–	–	–	–
S Lazarus	113,862	2·1%	2·835	Sep 1997	–	334,961	848,856
B Manning	–	–	–	–	–	–	–
C Jones	113,862	2·1%	2·835	Sep 1997	–	334,961	848,856
H Paster	83,499	1·5%	2·835	Sep 1997	–	245,638	622,496
P Barnard	49,383	0·9%	2·835	Sep 1997	–	145,275	368,157

All options granted to executives in this table are exercisable three years from the grant date and expire ten years from the grant date.

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

	Shares acquired on exercise	Market value at exercise date ($)	Number of shares underlying unexercised share options, SARs and phantom stocks at year-end: Exercisable	Unexercisable	Value of unexercised in-the-money stock options, SARs and phantom stocks at year-end ($)*: Exercisable	Unexercisable
M S Sorrell	–	–	1,571,190	577,391	5,613,713	1,468,792
S Lazarus	–	–	231,540	909,281	587,586	876,542
B Manning	–	–	500,000	–	1,785,259	–
C Jones	–	–	103,009	462,131	255,085	439,600
H Paster	–	–	207,283	398,161	513,300	389,998
P Barnard	–	–	123,950	302,456	306,941	366,918

The value is calculated by subtracting the exercise price from the fair market value of the Company's ordinary shares on 31 December 1997, namely 269·5p and using an exchange rate of $1·6465 to £1.

Long-term incentive plan grants in 1997

	Performance period	Threshold $	Target $	Maximum $
M S Sorrell	n/a	n/a	n/a	n/a
S Lazarus	1 Jan 1997-31 Dec 1999	Nil	500,000	750,000
B Manning	n/a	n/a	n/a	n/a
C Jones	1 Jan 1997-31 Dec 1999	Nil	600,000	900,000
H Paster	1 Jan 1997-31 Dec 1999	Nil	181,500	275,000
P Barnard	1 Jan 1997-31 Dec 1999	Nil	163,810	245,715

Policy on external appointments

The Company recognises that its senior executives may be invited to become non-executive directors of other companies and that such exposure may be beneficial to the Company. Consequently, executives are allowed to accept non-executive appointments with non-competing companies subject to obtaining the approval of the Group chief executive in the case of senior executives and the approval of the Board in the case of executive directors. Any fees receivable out of such appointments are retained by the individuals concerned.

Equal opportunities

The Compensation committee and the Group endorses and supports the principles of Equal Employment Opportunity. It is the policy of the Group in its businesses throughout the world to provide equal employment opportunities to all appropriately 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 are being considered.

Employee consultation and involvement

The Group places great importance on the contributions made by all employees to the progress of the Group through the activities of their respective companies and aims to keep them informed on matters affecting them and our business. This is achieved by:

- formal and informal meetings at the individual company level;
- monthly chief executive reports to participants in short- and long-term incentive plans;
- WPP Atticus Awards;
- WPP Partnership Program;
- WPP Fellowship Program;
- distribution of the Annual Report and Accounts and the *Navigator*;
- regular newspaper – the *WIRE*; and
- grants under, and the circulation of explanatory booklets in relation to, the Worldwide Ownership Plan and other stock ownership and compensation plans.

Employees of the Group, including those participating in the Worldwide Ownership Plan referred to on page 89, are eligible to receive stock option grants. As at 6 May 1998, options have been granted to a total of 10,642 (May 1997: 10,999) employees over 37,293,218 (May 1997: 36,198,729) ordinary shares of the Company.

Employees own approximately 11% (1996: 10%) of the issued share capital of the Company.

Remuneration policy for non-executive directors

Remuneration for non-executive directors consists of fees for their services in connection with Board and Board committee meetings and, where appropriate, for devoting additional time and expertise for the benefit of the Group. They are not eligible for membership of any Company pension plans, and do not participate in any of the Group's short- or long-term incentive programs or in any of the Group's stock plans.

Under the provisions of the Company's Articles of Association, all directors retire by rotation.

On behalf of the Board
S W Morten
Chairman of the WPP Group plc
Compensation committee
6 May 1998

About share ownership

Information for share owners

Share owners' register

A register of share owners' interests is kept at the Company's head office and is available for inspection on request. The register includes information on nominee accounts and their beneficial owners.

Analysis of shareholdings at 31 December 1997

Issued share capital as at 31 December 1997: 736,326,336 ordinary shares.

Number of shares held	Number of owners	%	Total of shares	%
1 – 100	913	15·67	64,850	0·00
101 – 250	399	6·85	75,604	0·01
251 – 500	481	8·26	196,886	0·03
501 – 1,000	776	13·32	657,691	0·09
1,001 – 5,000	1,761	30·23	4,329,740	0·59
5,001 – 10,000	367	6·30	2,715,925	0·37
10,001 – 25,000	268	4·60	4,485,053	0·61
25,001 – 50,000	182	3·12	6,553,076	0·89
50,001 – 100,000	182	3·12	13,282,556	1·80
100,001 – 500,000	283	4·86	67,574,638	9·18
500,001 – 1,000,000	85	1·46	61,295,999	8·32
1,000,001 – 2,000,000	59	1·02	83,632,693	11·36
2,000,001 – 3,000,000	19	0·33	45,903,046	6·24
3,000,001 – 4,000,000	14	0·24	46,903,719	6·37
4,000,001 and above	36	0·62	398,654,860	54·14
Total	**5,825**	**100·00**	**736,326,336**	**100·00**

Share owners by geography	%
United Kingdom	49
United States of America	47
Asia Pacific, Latin America, Africa & Middle East and Continental Europe	4
Total	**100**

Share owners by type	%
Institutional investors	84
Employees	11
Other individuals	5
Total	**100**

Dividends

Ordinary share owners have received the following dividends in respect of each financial year:

	1997	1995	1995	1994	1993
Interim dividend per ordinary share	**0·70p**	0·556p	0·445p	0·385p	0·35p
Final (1997 proposed) dividend per ordinary share	**1·43p**	1·144p	0·865p	0·750p	0·65p
Total	**2·13p**	1·700p	1·310p	1·135p	1·00p

Information for share owners continued

American Depositary Receipts (ADRs)

Each ADR represents 10 ordinary shares.

ADR holders receive the annual and interim reports issued by WPP Group plc.

WPP Group plc is subject to the informational requirements of the US securities laws applicable to foreign companies and files an annual report on Form 20-F and other information with the US Securities and Exchange Commission. Form 20-F is also available from our Investor Relations departments in London or New York.

ADR dividends

ADR holders are eligible for all stock dividends or other entitlements accruing on the underlying WPP Group plc shares and receive all cash dividends in US dollars. These are normally paid twice a year.

Dividend cheques are mailed directly to the ADR holder on the payment date if ADRs are registered with WPP's US depositary. Dividends on ADRs that are registered with brokers are sent to the brokers, who forward them to ADR holders. WPP's US depositary is Citibank N.A. (address below).

ADR holders should be aware of tax refunds that increase the cash dividends paid to qualifying US residents. Dividends per ADR, including UK tax refunds but before US tax credits, in respect of each financial year are set out below.

	1997	1996	1995	1994	1993
In sterling					
Interim	**7·0p**	5·56p	4·45p	3·85p	3·50p
Final (1997 proposed)	**14·3p**	11·44p	8·65p	7·50p	6·50p
	21·3p	17·00p	13·10p	11·35p	10·00p
In dollars[1]					
Interim	**11·4¢**	8·68¢	7·02¢	6·00¢[2]	5·20¢[2]
Final (1997 proposed)	**23·5¢**	17·86¢	13·65¢	11·95¢[2]	9·80¢[2]
	34·9¢	26·54¢	20·67¢	17·95¢	15·00¢

Notes

1 The ADR dividends represent a sterling liability, but for convenience have been translated to US dollars at the average rate for the period.

2 These amounts have been restated to reflect the current value of one ADR to 10 ordinary shares (prior to 15 November 1995 one ADR represented two ordinary shares).

The figures opposite include a refund of the related UK tax credit less the UK withholding tax. Since 1993 the tax credit has been one-quarter of the amount of the dividends on the ordinary shares. Prior to 1993 it was one-third. UK withholding tax is 15% of the total of the dividend and the tax credit. For 1996 the total of the declared dividends per ADR is 16·0p, the related tax credit per ADR is 4·0p and the withholding tax per ADR is 3·0p, giving a net UK tax refund of 1·0p per ADR and a total cash payment of 17·0p per ADR.

ADR holders who are US residents for tax purposes may normally credit the withholding tax against their federal income tax liabilities. The UK net tax refund together with the US tax credit can, therefore, effectively increase the value of the gross dividends paid to qualifying ADR holders by up to 25% in sterling terms over the amount of the declared dividends on the underlying ordinary shares.

The amount of the credit is specified on Internal Revenue Service Form 1099, which is provided to ADR holders automatically by the depositary agent.

Dollar amounts paid to ADR holders depend on the sterling/dollar exchange rate at the time of payment.

Financial calendar

- The 1997 final dividend will be paid on 13 July 1998 to share owners on the register at 19 June 1998.
- Interim statements for the half-year ending 30 June are issued in August. Quarterly trading announcements are issued in April and October.
- Interim dividends are paid in November.
- Preliminary announcements of results for the financial year ending 31 December are issued in February.
- Annual reports are posted to share owners in May.
- Annual general meetings are held in London in June.

Share price

The mid-market price of the shares at 31 December was as follows:

	1997	1996
Ordinary 10p shares	**269·5p**	254·0p

Within the UK, 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 or 0336 434544; calls charged at 50p per minute at all times).

Access numbers

	NASDAQ	**Reuters 2000**	**Topic**
Ordinary shares		WPPL.L	52945
American Depositary Receipts	WPPGY		

Information for share owners continued

Registrar and transfer office
Computershare Services
PO Box 82
Caxton House
Redcliffe Way
Bristol BS99 7NH

American Depositary Receipts (ADRs)
Citibank N.A.
111 Wall Street
5th Floor
New York
NY 10043

WPP registered office
Pennypot Industrial Estate
Hythe
Kent CT21 6PE
The Company's registered number is 1003653.

Reclaiming income tax on dividends
Where dividends are paid in the form of foreign income dividends, no income tax is recoverable. Dividends not paid in the form of foreign income 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 for the year subject to tax is less than the gross dividend (net dividend plus tax credit) you may be entitled to reclaim part or all of the dividend credit. 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 Form R40 (SP). 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.

Where to find us

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Internal Communication
In touch with the world room
Media planning room
Navigation room
External communication
Meeting, conference and idea room