WPP Group plc

Annual Report and Accounts 1995

Contents

WPP Group plc

WPP is the world's largest advertising and marketing services group. The Group's 40 companies employ 20,000 people and operate from 786 offices in 84 countries. Clients include more than 300 of the Fortune 500.

Here are four questions that every parent company should ask of itself at least once a day: Do we justify our overhead? Do we contribute more than we cost? Do we make it harder or easier for the operating companies to operate? Do we add value?
At heart, of course, they are all the same question.

The changing role of the parent company

For much of its early life, WPP Group, the parent company, was exclusively a financial brand. We performed all those financial and administrative functions which could only be performed centrally or which could more efficiently be performed centrally, and left all professional matters to the individual operating companies. Accordingly, we took primary responsibility for financial reporting and control, tax, treasury, acquisitions and disposals and investor relations – and shall continue to do so. This both saves cost and relieves the operating companies of some distracting administrative burdens.

Increasingly, however, it has become clear that a group such as ours can be of even greater value to clients, and can provide even greater opportunities and rewards for its people, if we set out to develop certain other defined activities as well.

Strict criteria need to be applied. If any activity can be better undertaken by a single company, or if centralising an activity threatens operating companies' autonomy or identity, then it is better left de-centralised.

But there are clear Group opportunities which meet both these criteria and which make positive use of overall size and resources for the benefit of all.

In recruitment and training, in the efficient utilisation of property, in information technology and in procurement, increasing value is being obtained through centralised activity. And closer still to clients, parent company initiatives have already demonstrated professional benefits in media buying and research, healthcare, privatisation, new technology, rapidly growing markets and internal communications.

There can be little doubt that, with imagination, a sense of adventure and extreme vigilance, the value of the Group to client companies can be a great deal more than the sum of its parts.

1995 financial summary

- Revenues up 9% to £1.555 billion.
- Operating profit up 24% to £139 million.
- Operating margins up 1% to 9.0%.
- Profit before tax up 34% to £114 million.
- Fully diluted earnings per share up 40% to 9.1p.
- Net cash of £71 million at 31 December 1995 against £38 million net debt in 1994.
- Average net debt down 20% to £214 million.

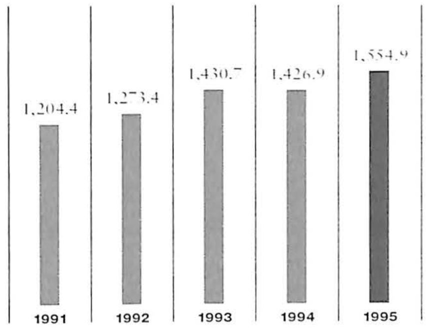
	1995	1994	Change (%)
Turnover	£6,553m	£6,014m	+9.0
Cost of sales	£4,998m	£4,587m	+9.0
Revenues	£1,555m	£1,427m	+9.0
Operating profit	£139m	£112m	+24.1
Operating profit margin	9.0%	7.9%	+1.1
Profit before tax	£114m	£85m	+34.1
Fully diluted earnings per share	9.1p	6.5p	+40.0
Dividends per ordinary share	1.31p	1.135p	+15.4
Net cash/(debt) at year end	£71m	£(38m)	+286.8
Average net debt	£214m	£268m	-20.1
Share price at year end	164.0p	109.0p	+50.5
Market capitalisation	£1,209m	£785m	+54.0

For a full financial review, please turn to page 54.

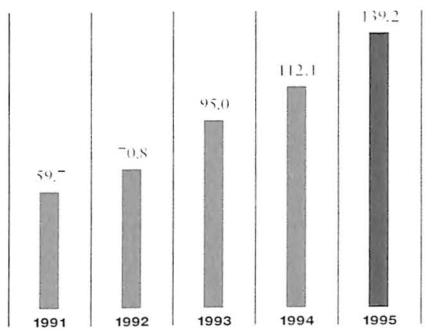
1995 financial highlights

WPP's results for 1995, our tenth year, represent record profits. The Group reported continued improvements in revenues, margins and earnings together with a substantial reduction in net debt.

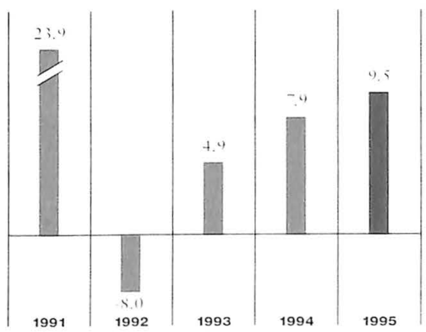
Revenue (£m)



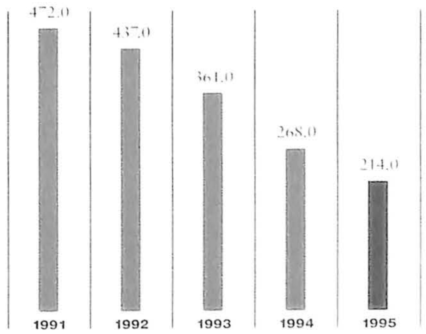
Operating profit (£m)



Basic earnings per share (p)



Average net debt (£m)



Dear share owner: 1995 was a good year

On an apples-to-apples basis revenues were up 8%, operating margins up by over 1%, operating profits up almost 25%, pre-tax profits up a third and earnings per share up 40%. Average net debt fell by 20% to £214 million. As a reflection of this, the measure of share owner's value, the share price, rose 50% to 164p over the year.

1996 should be even better. Already after four months on the same basis, revenues are up over 10%, operating margins are rising by more than 1%, and net debt has fallen by another 21% to an average of £166 million. Again, the measure of your wealth, the share price, has reflected this, rising another 22% to over 200p by May 1996.

Now that the recovery from our difficulties in the early 1990s is almost complete, we can focus on longer-term objectives.

To this end, the Group now has five key objectives in its goal to become the world's preferred provider of advertising and marketing services to both multinational and national companies.

- First, to raise its operating margins to the level of the best performing competition, from 9% last year to approximately 13%.

- Secondly, to increase flexibility in the Group's cost structure to meet the inevitable recession when it comes, particularly in the areas of staff and property which account for approximately 65% of revenues. Variable staff costs, for example, account for approximately 3.5% of revenues and should be approximately 6%.

- Thirdly, to continue to reduce the level and cost of debt. Our target is to reduce average levels of debt to approximately £100 million and to reduce interest costs by another 1/2%.

- Fourthly, to develop the role of the parent company to include more than the traditional financial functions of reporting and control, treasury, tax, mergers and acquisitions and investor relations.

To this end, over the last four years important appointments have been made at the parent company level in the areas of human resources, property, procurement, information technology and practice development.

Human resources covers not only incentive systems but recruitment, training and career development. Property covers not only the elimination of surplus space, but the more effective re-design of the space we use. Procurement encourages the most effective purchase of our goods and services. Information technology encourages the articulation of a clear strategy in this area and the most cost-effective implementation of that strategy.

WPP share price (p) vs re-based FTSE All-Share Index 1994-95

Practice development ensures that we are developing revenue-producing opportunities in key growth areas such as media buying and research, healthcare, privatisation, new technologies, new markets and internal communications.

In essence WPP is moving from being an investment holding company to becoming a parent company: a parent company that adds value to its clients and its people, and which inspires, motivates, coaches, encourages and incentivises its operating companies.

- Finally, as the Group moves up the margin curve it will be necessary to place greater emphasis on revenue growth and expansion in high growth functional and regional areas.

To achieve this, we will expand our strong advertising networks – Ogilvy & Mather Worldwide, J. Walter Thompson Company and Conquest – in high growth markets or in important markets where their market shares are insufficient. We will enhance the leadership position we have in market research and information technology by continuing to develop our major research brands – Research International, Millward Brown, BMRB – particularly in Asia Pacific and Latin America. We will also reinforce our leadership position in direct marketing through Ogilvy & Mather Direct and continue to nurture its protégé, the new media, through small strategic investments. Lastly, we will continue to develop our specialist expertise in areas such as healthcare and technology, and identify new areas for development.

As you can see there is a considerable amount still to be achieved. Given the increasingly global and competitive environment that our clients face, it is probable that once these objectives are achieved new ones will be appropriate.

1996 will see further success and demonstration of the capabilities of our greatest asset: our people. Our strong performance in 1995, with an even more encouraging start to 1996, can be attributed above all to the value that our clients place on our abilities. Our end-product, in all sectors, is the disciplined application of hard graft, experience, intuition and imagination. These are often difficult qualities to reconcile. The most satisfactory aspect of our financial results is the evidence they provide of the skill, talent and hard work of our 20,000 people in 84 countries.

Our congratulations and our thanks go to all of them.

Gordon Stevens
Chairman

Martin Sorrell
Group chief executive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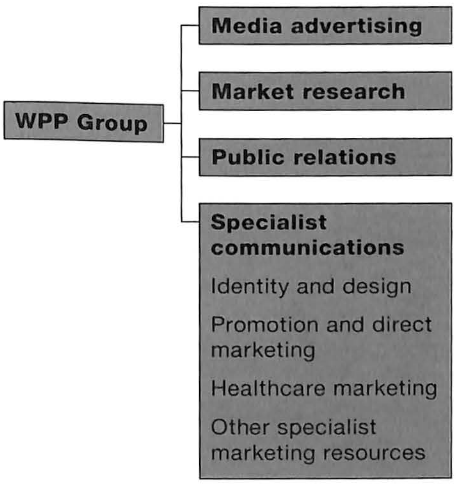
BDG McCOLL
CARL BYOIR & ASSOCIATES
Cole & Weber
Anspach Grossman Enterprise
MANDO MARKETING
COLEY PORTER BELL
Primary Contact
FERGUSON COMMUNICATIONS GROUP
EWA
einson FREEMAN
THE FUTURES GROUP
Millward Brown International
SampsonTyrrell Enterprise
SCOTT STERN
HLSCORP.
Conquest
MD&A
MENDOZA, DILLON & ASOCIADOS, INC.
Ogilvy & Mather Worldwide
Simmons
WINONA MRB INC
METRO
INTEGRATED VISUAL SOLUTIONS
JWT Direct
JWT
J. Walter Thompson
JWT Specialized Communications
SBG Partners Enterprise
OakleyYoung
RESEARCH INTERNATIONAL
THE MEDIA PARTNERSHIP
PACE
Ogilvy & Mather Direct
HENLEY CENTRE
GRG
RTCdirect
WalkerGroup/CNI
HILL & KNOWLTON
Ogilvy Adams & Rinehart
CommonHealth
PROMOTIONAL CAMPAIGNS GROUP
BMRB INTERNATIONAL
tmc
Brouillard
S·U·N·HEALTH·CORE

WPP Group: our purpose and function

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



WPP is made up of 40 individual companies, each expert in its own field of marketing services.

Media advertising

Our full service advertising agencies specialise in the planning, production and placing of advertising for both national and multinational clients in all categories, from radio commercials and posters to print and interactive television commercials.

Market research

WPP's market research companies, each with its own area of expertise, together create the largest custom research group worldwide from which clients can access a complete menu of research services. These include strategic market segmentation and brand positioning studies; concept/product development and testing; brand/advertising/corporate communications research and tracking; media research and modelling; customer satisfaction measurement; social and policy issues studies; data handling; internationally co-ordinated projects.

Public relations

Clients look to the Group's public relations companies for advice on a wide range of important issues: corporate and financial communications; public affairs; health and medical communications; consumer affairs; environmental communications; management counselling; crisis management and media relations.

Specialist communications

Specialist communications include strategic marketing consulting; corporate identity and design; electronic and multimedia communications; financial and corporate advertising; business-to-business communications; pharmaceutical and healthcare marketing; travel, recruitment and retail marketing; sales promotion, direct marketing and database support; incentive and motivation programmes; exhibitions and conferences; real estate and Hispanic marketing.

WPP Group's service sectors: media advertising, market research, public relations

Industry prospects | **WPP brands** | **Revenue proportion**

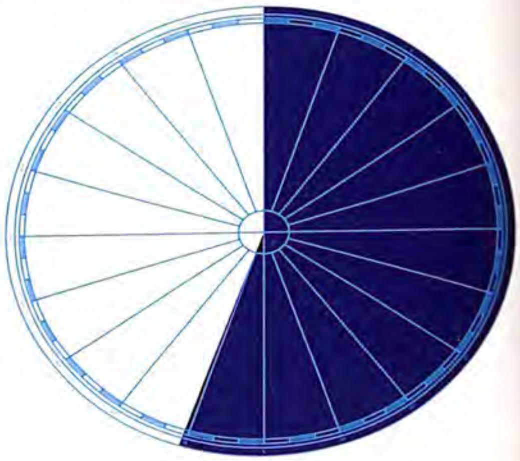
Media advertising

1995 saw continued consolidation of agency networks. TBWA, Chiat Day, Ketchum, Ammirati & Puris and Bayer Bess Vanderwarker were all acquired by larger multinational groups. This is expected to continue.

Clients continued the trend of consolidation of their agency rosters e.g. Colgate Palmolive, Reckitt & Colman, S.C. Johnson, De Beers, Kodak and SmithKline Beecham.

Faster growing economies such as those in Asia and Latin America are increasing their importance to clients and thus agency networks.

Cole & Weber
Conquest
J. Walter Thompson Company
Ogilvy & Mather Worldwide



55%

Market research

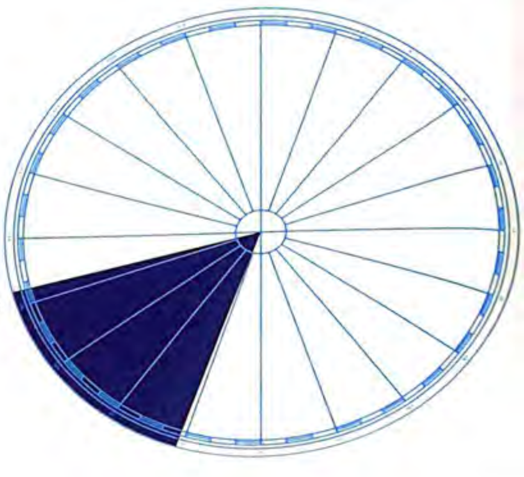
Multinationals increasingly purchase market research on a co-ordinated global basis.

The top 25 firms in the market research industry now account for over 50% of the worldwide revenue and consolidation via acquisition is expected to continue.

Qualitative ad hoc studies and tracking studies have been the growth sectors of the industry.

The Kantar Group:
- **BMRB International**
- **Millward Brown International**
- **Research International**
- **Simmons**
- **Winona/Research Resources**

16%



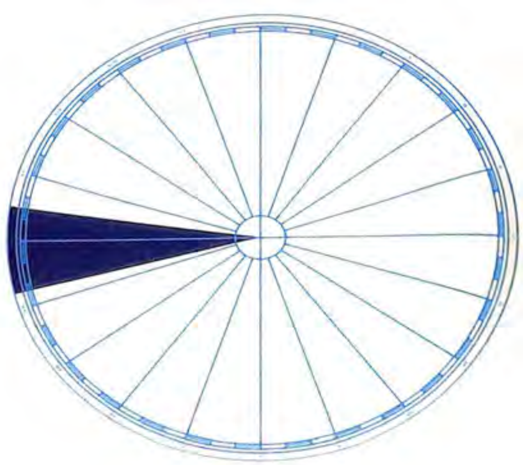
Public relations

Specialist public relations operations have grown market share over the last five years. The top 50 agencies by size have grown faster than the top 10.

Multinationals do not, as yet, make many global roster decisions for public relations agencies. Multinational agencies do not benefit automatically from their geographic scope.

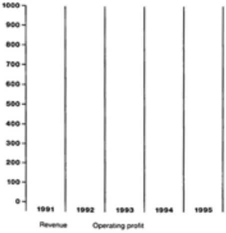
Carl Byoir & Associates
Hill and Knowlton
Ogilvy Adams & Rinehart

6%



WPP Group's service sectors: media advertising, market research, public relations

Revenue and operating profit (£m) | **Worldwide positioning** | **Financial summary**



J. Walter Thompson Company and Ogilvy & Mather Worldwide are the fourth and sixth largest agency networks in the world respectively.

During 1995, WPP agencies benefitted from the consolidation of rosters at De Beers, Kimberly-Clark/Scott Paper, Kodak and SmithKline Beecham. This was in addition to the IBM consolidation of the previous year.

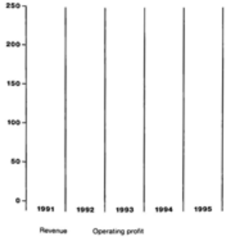
WPP's media advertising networks have over 60 offices in Asia and over 50 in Latin America. They are placed in the top three in seven of the top 10 largest markets and all of the top 10 fastest growing countries.

Combined media advertising revenues at J. Walter Thompson Company and Ogilvy & Mather Worldwide rose by 11.5% and operating costs by 9.7%.

Combined operating margins for the two brands were 12.7% and the combined staff costs to revenue ratio fell to 57.8% from 58.5%.

J. Walter Thompson Company generated net new billings of over £201m ($318m) and Ogilvy & Mather Worldwide £134m ($212m).

Despite a fall in Conquest revenues, operating costs were similarly reduced, resulting in stable profitability.



The Kantar Group, the combined WPP research capability, is the world's second largest market research group and the largest custom research group.

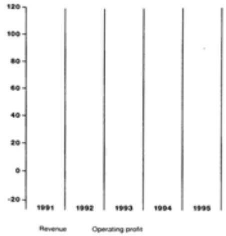
It has therefore been a strong beneficiary of the trend towards international research co-ordination.

In the product arena, Kantar's strengths match the growth sectors.

The Group's market research businesses continued their strong growth with gross profit rising almost 10%.

Operating costs rose by over 6% and as a result, margins rose by 1.5% over the previous year.

Particularly strong performances were recorded by Millward Brown as a whole; Research International in Boston, the United Kingdom, France, Germany, Italy, Netherlands, Brazil and Japan; and BMRB in the United Kingdom.



Hill and Knowlton is the world's third largest public relations company and Ogilvy Adams & Rinehart is the eighth largest.

WPP's public relations agencies are focusing on developing those specialist capabilities in which they have particular expertise, such as investor relations at Hill and Knowlton and healthcare at Ogilvy Adams & Rinehart.

They are also benefitting from the Group's co-operation initiatives in property, human resources, IT and procurement.

The Group's public relations activities have made a significant recovery. They broke even before short-term excess property costs of £2m ($3m) per annum.

Hill and Knowlton's revenues rose by 2% and operating costs fell by over 2%. Most of the improvement took place in the United States and Europe, partly due to a reduction in property costs.

Ogilvy Adams & Rinehart's revenues rose by over 7% and operating costs by approximately 2%. Operating margins were over 7%.

WPP Group's service sectors: specialist communications

Specialist communications	Industry prospects	Sector sub groups
Identity and design **Promotion and direct marketing** **Healthcare marketing** **Other specialist marketing resources**	Multinational clients in virtually every sector are seeking a more efficient and better targeted means of marketing to a growing number of market segments. The Group's specialist communications businesses are mobilised individually or co-operatively to provide this support. This expertise can take the form of a specialised discipline – such as consumer promotion, direct marketing, identity and design, strategic marketing consulting or new interactive media technologies. Additionally, clients may seek to reach a particular audience segment, such as healthcare, retail, or Hispanic populations.	**Identity and design** The combined capabilities of the Group's identity and design firms represent the largest resource of its type available. The work usually begins with the strategic definition of a brand or corporate identity – and it proceeds through every executional element from internal and external communication material to the design of the product package. Enterprise Identity Group was recently launched to provide specialist identity consulting on a global scale. **Promotion and direct marketing** Promotion provides the stimulus to buy, and direct marketing maintains a dialogue with the customer to ensure re-purchase and the continuity of a relationship. Our capabilities in both areas can be delivered separately; or, increasingly, clients are employing these disciplines on an integrated basis. **Healthcare marketing** The group's health-related marketing capabilities are also collectively deeper and more expansive than any other network. Through The CommonHealth and affiliate firms, we are able to help clients promote health and medical products and services to every important audience, through every available medium, anywhere in the world. **Other specialist marketing resources** WPP Group also offers other important specialist capabilities through the firms listed here. Their services include strategic marketing consulting, ethnic/Hispanic marketing, real estate marketing, electronic and interactive media support, and specialist business-to-business and internal communications.

WPP Group's service sectors: specialist communications

WPP brands	Worldwide positioning	Financial summary

WPP brands

Anspach Grossman Enterprise
BDG/McColl
Coley Porter Bell
Oakley Young
SampsonTyrrell Enterprise
SBG Partners Enterprise
Scott Stern
WalkerGroup/CNI

A. Eicoff & Co
Einson Freeman
EWA
The Grass Roots Group
JWT Direct
Mando Marketing
Ogilvy & Mather Direct
Promotional Campaigns Group
RTC Direct
TMC

The CommonHealth
Ferguson Communications Group
HLS CORP
S.U.N. Health-Core
Zoe Medical

Brouillard
The Futures Group
The Henley Centre
JWT Specialized Communications
Mendoza, Dillon & Asociados
Metro Group
Pace
Primary Contact

Worldwide positioning

WPP has achieved or maintained leadership positions in most of the major specialist areas.

The identity and design business pooled resources and launched Enterprise Identity Group to support the identity and strategic communications needs of international clients. With centres in key locations: New York, London, San Francisco, Hong Kong and Taipei, Enterprise emerges, on collective revenue, as one of the top three largest networks in the world. Founding members are Anspach Grossman Enterprise, SampsonTyrrell Enterprise, SBG Partners Enterprise, Artistree Enterprise and O&M Identity Enterprise.

Ogilvy & Mather Direct remains the leading direct marketing firm in the world. In 1995, our promotion and direct marketing business benefitted by the further worldwide consolidation of IBM's promotion business for its Personal Systems Group.

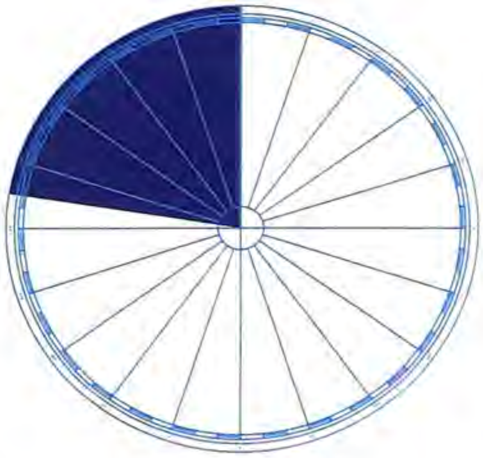
The CommonHealth, WPP's virtual company of healthcare marketing specialists, has been ranked for four consecutive years by its peers in the US as the 'most admired' healthcare marketing network. The combination of its member firms also represents the world's largest healthcare marketing network in billings and income.

Financial summary

Specialist communications businesses revenues rose by about 5%, and gross margin increased over 6% with operating profits increasing as a result. Outstanding results were achieved in the United States by Einson Freeman, Anspach Grossman Enterprise, RTC Direct, Ferguson Communications, Mendoza, Dillon & Asociados, Pace and SBG Partners Enterprise: and in the United Kingdom by Promotional Campaigns Group, SampsonTyrrell Enterprise, EWA, Oakley Young and Scott Stern.

Revenue proportion

23%



Revenue and operating profit (£m)

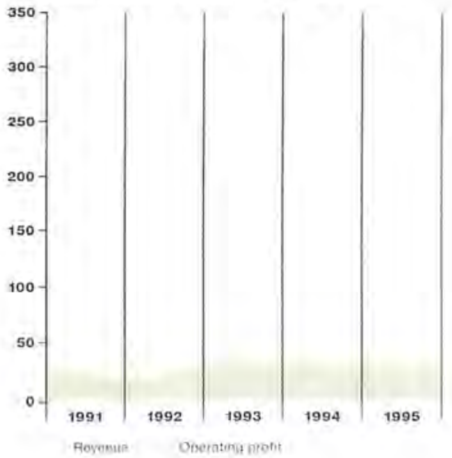


FIG II

Talent

WPP's professional initiatives continue:

- The Atticus Awards (for original thinking in marketing services) is into its second year and winning entries are published in *The Atticus File*, our annual marketing journal.
- We have extended the WPP Marketing Fellowship programme to the US. In 1996 we will take on 16 individuals to rotate through Group companies as part of the process of building a generation of multi-disciplinary managers.

1996 has seen greater emphasis on education, training and knowledge sharing:

- Week long 'Brand Leadership' workshops bring together rising stars from across our companies in a unique multidisciplinary environment. Clients and outstanding professional service companies, such as Arthur Andersen and McKinsey, contribute, while case studies allow us to develop the tools we require to enhance the quality of our offer to clients.
- Over 40 people from Group companies around the world met in Chicago in May 1996 to hear from clients, experience some of the latest IT developments and discuss ways collectively to help clients in the retail environment.
- Week-long senior management courses bring together CEOs and MDs to discuss ways to improve the management of our businesses.
- Individual operating company programmes continue, with education and training courses at all levels designed to improve the effectiveness of our operations, to understand better the needs of clients and enhance the competitiveness of our offers.

Over the centuries, absolutely everything worthwhile that mankind has achieved has sprung from the imagination: the one power, the one faculty, that most distinguishes man from other animals.

We still refer to iron and coal and oil as if they were our only natural resources but in fact, of course, the greatest natural resource of all, as it always has been, is the mind of man: infinite in its possibilities and infinitely renewable.

For competitive companies, relentlessly seeking that competitive edge, the harnessing of talent is both the most difficult and the most rewarding route to follow. Other routes are essential, too, of course, if only to maintain parity: but low costs and high efficiencies will never, of themselves, deliver sustainable advantage.

To sense people's latent wants before they become apparent; to understand the difference between a product and a brand; to be able to see through the eyes of others; to add values of presentation and personality that tip the final balance of consumer choice: these are some of the skills that make efficient companies outstanding ones. And all of them require access to fertile, imaginative minds. The Japanese, who are better than most at managing this process, call it 'mining the gold in people's heads'.

Much of this talent may be found in marketing companies themselves, but not all. It's a common characteristic of talented specialists to be happier and more productive when working within their own specialist companies than as members of a department in a much bigger enterprise. It follows that recruitment, training, best practice development and the constant spur of internal competition will all deliver greater benefits in discrete, specialist organisations than in larger, more general ones.

It's for this reason that marketing services companies exist in the first place; why demand for their services continues to expand; and why, even within the WPP Group, all the companies are encouraged to build their own brands and develop their own specialist skills and expertise.

Increasingly, however, the parent company is able to bring an extra dimension to bear: not to duplicate, not to replace, but to make companies within the Group even more attractive to talented people throughout the world.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Hainer Weg
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Wilshire Boulevard
Jalan Munshi
Via Cino del Duca
Yonge Street
Søndergade
Avenue Louise
West 49th Street
K St. NW
Av. Diagonal
Abdullah
Большой Каретный
St Kilda Road
Berkeley Square
ΛΕΩΦΟΡΟΣ ΚΗΦΙΣΙΑΣ
Kaiserstraße
শেক্সপীয়ার স্মরণী
Lexington Avenue
Ejercito Nacionale
Farm St.
建国门外 大街
Avenida Brigadeiro
Canary Wharf
Seocho Dong
Rivonia Boulevard
Keizersgracht
Avenue Georges V
淡马锡林荫道
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World

To meet the increasingly borderless needs of client companies, WPP's operating companies regroup in readiness:

- Enterprise Identity Group, the umbrella for WPP's worldwide identity consulting services, was formally launched in 1996 to service corporations with worldwide identity needs. With strategic locations in New York, London, San Francisco, Hong Kong and Taipei, Enterprise has already undertaken and executed a number of global corporate identity projects.

- Computer giant IBM made history in 1994 when it moved its advertising account from more than 40 advertising agencies to one network worldwide, Ogilvy & Mather. Similar trends are now emerging in other marketing services: in 1996 IBM's Personal Systems Group selected a single promotion marketing agency to handle its business worldwide. With US agency Einson Freeman and Promotional Campaigns Group worldwide, WPP created a global force, Einson Freeman Promotional Campaigns (EFPC), to win the fiercely-contested business.

- When Unilever brand *Pond's*, the beauty products, sought a cross-boundary advertising campaign to appeal to women the world over, Ogilvy & Mather came up with the idea of *The Pond's Institute*, responsive to consumer needs. From an initial appointment to handle the brand in the UK and Mexico, O&M now handles the account in more than 50 countries.

It would be easy, but wrong, to deduce from the history of marketing services companies so far that, in the not too distant future, their business will be exclusively multinational. The truth will be far more interesting than that.

As ever, marketing services companies will follow their clients. Since the 1920s, client companies have been systematically expanding internationally, and their advertising agencies have followed: the good ones swiftly and responsively. WPP's two largest agency networks, J. Walter Thompson Company and Ogilvy & Mather Worldwide, both developed their own international networks primarily in response to the opportunities offered by clients such as American Express, Ford, Kellogg and Unilever. But at the same time, both agencies were equally determined to retain, acquire and service purely national accounts as well – and for two good reasons.

First, to state the obvious, all international business starts by being national: it is where opportunity begins. Second, for both national and international clients, local knowledge and sensitivity remain essential. National business, won and serviced by the most talented nationals, produces an agency network capable of creating effective communications across 20 or more countries – *and* campaigns so subtly effective that they can be appropriate for only one.

Today, increasingly, the same trends can be detected in other marketing disciplines: market research, sales promotion and specialist communications. WPP companies in each of these sectors are now serving the same client companies across more and more countries. Yet, as with the advertising agencies, they continue to recognise the value – in opportunity, income and experience – of the local client.

The pattern that started in the United States, to be followed by Western Europe, is now rapidly repeating itself in other markets, with Central and Eastern Europe, Latin America and Asia Pacific developing particularly rapidly. It is from these markets, as well as from the traditional markets, that many of tomorrow's new multinationals will emerge.

The WPP Group is well-entrenched in all of them, serving national, regional and worldwide clients in all disciplines.

No two clients' needs are identical, nor will they ever be. WPP's strengths, both functional and geographical, enable it to meet the marketing needs of just about any client company, at whatever stage in its development it may be.

Partnership

Increasingly, WPP companies are working in teams which cut across boundaries of organisations, cost centres and functions. These virtual entities provide clients with a single point of access to a broad array of competencies and resources:

- The CommonHealth is a worldwide alliance of WPP's health-related marketing capabilities. Through this network, pharmaceutical clients can reach any audience through every medium... anywhere in the world.
- S.U.N. Health-Core has particular expertise in the growing consumer interest in products and services that improve health and well-being in the broadest sense. Several clients of this 'borderless' venture (American Chicle Group for its Rolaids brand and Parke-Davis for Cognex) have retained multi-disciplinary teams drawn from four different Group companies.
- WPP is keeping close to new media developments with minority investments in a number of specialist operations. In 1995, WPP invested in HotWired, the popular Web service and also became a sponsor of MIT's innovative Media Lab in Boston. In 1996, WPP invested in BroadVision Inc., a San Francisco-based firm specialising in the development of marketing systems for Internet sites.
- In May 1996, ICO, the global telecommunications company, awarded a team of five WPP companies – J. Walter Thompson, Hill and Knowlton, Research International, SampsonTyrrell Enterprise and Metro G-Force – its worldwide integrated communications account to provide advertising, public relations, research, identity and multimedia communications.

Few words in business are heard so frequently yet practised so rarely.

A partnership demands mutual trust, open communication, a shared purpose, and continuous give and take among its members. Better thought of as a verb than a noun, a partnership is always changing and must keep growing, lest it stagnate and die.

Despite these considerable challenges, we fully accept that our value as a marketing resource rests on our ability to spark and sustain partnerships – partnerships with our clients; partnerships among individuals within each operating company; and, increasingly, partnerships between the separate and independent companies of the WPP Group. The forms are many and varied, but there are certain qualities all successful partnerships have in common.

Each partner is excellent in his or her own right. The talent we recruit and develop, and the specialised expertise each firm brings to the table, must be best in class. Constellations are clusters of stars.

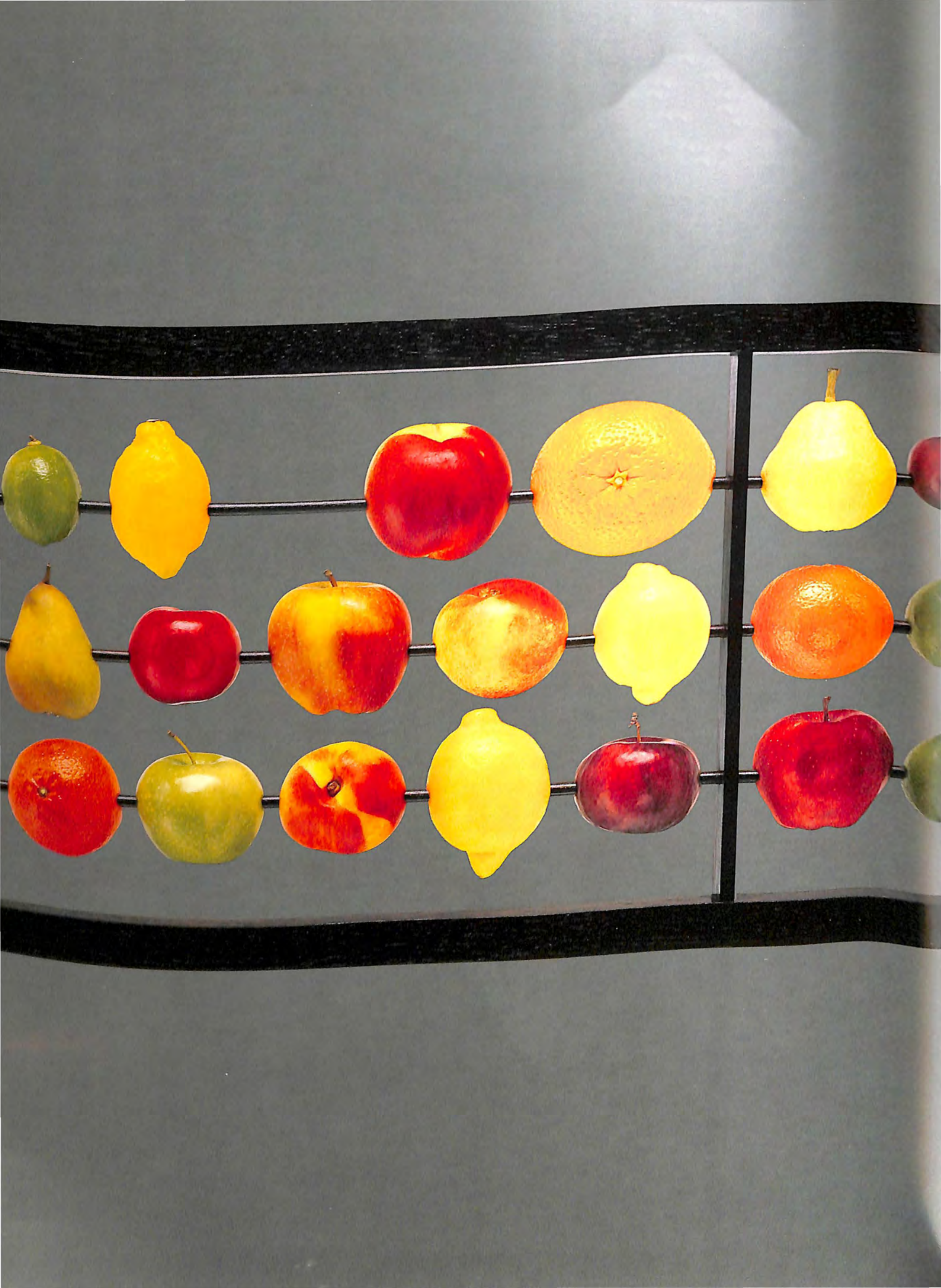
Information and knowledge sharing. We've built formal systems around the Group's electronic intranet, at the same time the informal network of communications has expanded naturally. Invariably, success in winning and serving joint client business stems from acting intelligently on information to support partnerships.

A common purpose. Partners are linked by the needs of the client, rather than our own convenience. Accordingly, we have extended incentive programmes past the boundaries of units, and now reward co-operation which adds value and stimulates growth of our clients' businesses.

Fortunately, clients are not just more comfortable with, but are in fact looking for, integrated resources as they themselves enter into strategic alliances and joint ventures. Our geographical reach allows us to share in the client's mandate to expand globally; and the range of specialised expertise represented in our firms allows us to deliver strategic consistency across communication vehicles.

Our partnerships may take the form of 'virtual agencies' focused on an *industry*, such as healthcare, telecommunications, or retail. Or we may deliver global alignment and economies of scale around a *discipline* – including advertising, media buying, promotion and corporate identity. Additionally, one of our own WPP *brands* may act as lead agency and single point of access (such as J. Walter Thompson, Ogilvy & Mather or Hill and Knowlton) through which other Group capabilities are channelled as needed.

As clients' needs continue to evolve in unpredictable directions, new WPP partnerships will be there to meet them.

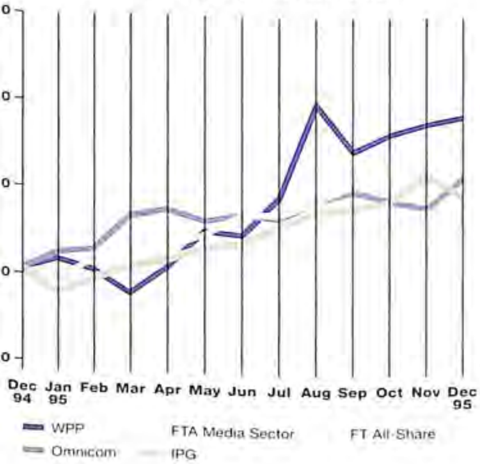


Profit

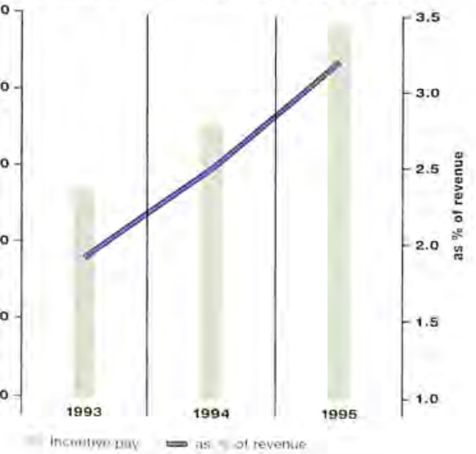
inancial summary

	1995	1994	Change (%)
perating profit	£139m	£112m	+24.1
ofit before tax	£114m	£85m	+34.1
lly diluted rnings per share	9.1p	6.5p	+40.0

elative share price performance



erformance related incentive pay



It has been said that profit for a company is like health for an individual: it is not why we exist, but the more of it there is, the better we are.

The professional purpose of all WPP Group companies is to make their clients more successful. The financial purpose of the WPP Group is to see that its share owners are competitively rewarded for their investment in this activity.

A central belief is that professional management interest and share owner interest should be seen to be closely aligned. Accordingly, the professional targets and personal rewards of senior management are strongly linked to agreed company and Group financial objectives.

This alignment of interest works well. For 1995, WPP Group operating profit, profit before tax and earnings per share all grew by more than 20% over 1994; and in the same year, the managements of the companies that made these results possible in turn received nearly £50 million between them in performance-related incentive pay.

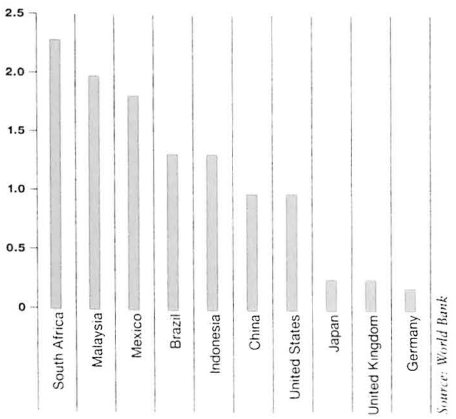
For the last four years, Group operating margins have risen by at least one percentage point a year, though a (diminishing) gap still remains between us and our most efficient competition. Since December 1992, investors have seen a share price appreciation that has outperformed the FTA Media Sector, the FT All-Share Index and both IPG and Omnicom – our two closest publicly-quoted competitors.

Finally, of course, a healthy profit picture gives us the freedom to invest: in people, in training, in information technology, in the pursuit of best practice and the transfer of knowledge. It is this investment – this reinvestment – that will help secure the returns of the future.

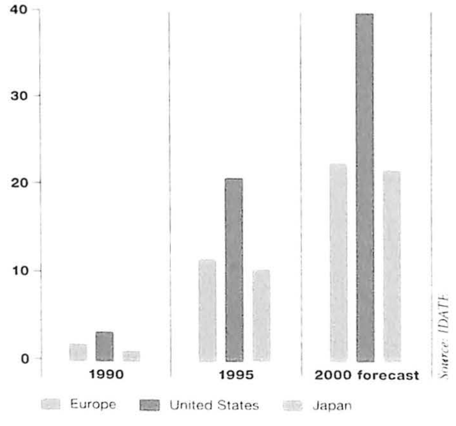
Inflation, retailer power, new media, new technology, new markets... Some of the changes are by now familiar; others still seem strange. Some seem destined to be with us forever; others may fade. The trick is to be alive to every possibility; and to be ready to move neither too soon nor too late. *Martin Sorrell* defines the issues.

One freeze-frame from a moving picture

Population growth by region (%)
Average annual growth 1992-2000



Improved communications
Cellular phones: growth by region
(% of main lines)



If the last five or 10 years have seen a toughening of competition, wait for the next five to 10. In a sense there is a Moore's law of competition. As low population growth continues, as communications and free trade improve, as technology transfer intensifies, as retail power grows stronger, as more new competitors emerge and if relatively stable growth and low inflation continue, the pace of competition will quicken exponentially. In this environment the power, importance and difficulty of brand differentiation will grow too.

Low population growth

Most companies aim to grow their sales, profitability or earnings per share by at least 5% to 10% per annum. Most population growth rates are less than this, particularly in the slower growth, mature economies. As a result consistent achievement of these targets will mean taking market share from a competitor.

Improved communications and free trade

Increased travel and improved electronic communications have made global competition a reality. However, cross-border and inward competition has really increased as a result of the development of free trade policies and areas. In many parts of the world, including the Americas, Europe and Australasia, the single most important stimulant to the advertising and marketing services industry has been the opening up of trade. For example in Latin America, hitherto moribund economies have flourished following the development of free trade policies. Chile has always benefitted from this, and Mexico, Argentina, Colombia and Peru have followed. As a result it is no longer essential, as it was 10 years ago, for Brazil to be progressing economically for Latin America to grow. Now Brazil is also moving in the right direction, the only concern being over the pace of change not its direction. Although Mexico has stumbled and the Salinas regime has lost its reputation, it can be only a question of time before it regains its poise given the proximity of the American market, the 95 million people comprising Mexico's internal market and the impact of NAFTA. Although it will probably take longer, Venezuela too will recover from its recent economic problems. For multinational companies these hiccups present buying opportunities.

Technology transfer

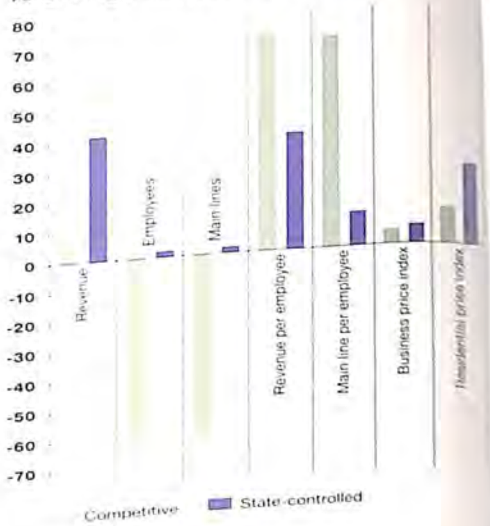
As technology becomes easier and easier to transfer and copy, our clients find it increasingly difficult to protect their competitive position. In this respect all industries, even those that seem to be technologically sophisticated, exhibit similar competitive characteristics. Computers, telecommunications and automobiles share the characteristics of detergents, food and credit cards. Product life-cycles shorten as a result, whilst brand-cycles lengthen. Lead times for the introduction of products concertina, and product testing is a luxury. The speed of competitive response demands instant action. This difficulty has been compounded by the trend towards strategic alliances amongst hitherto fierce competitors, for example in the airline or automobile or high-tech industries, and even the development of new technologies by competitors, for example in the photographic industry. In such an environment it is increasingly important for our clients to be prepared to take calculated risks in bringing new products and services to market quickly. Naturally more mistakes will be made as a result, but it is important that failure is not punished, and that risk-taking is not discouraged.

Growing retail power

Manufacturers have to operate in an environment where distribution is increasingly dominated by retailers, particularly in the area of packaged goods. For example in the UK nearly 60% of food sales are controlled by four retailers. At the same time as controlling distribution, retailers have established their own label or store brands. Whilst some years ago store brands had either a real or perceived quality problem, rather like Japanese or Hong Kong products used to, in the late 1980s retailers improved the quality of store brands significantly and even developed products at different price points – for example A & P with Master Choice and Tesco. At the same time as retailers were improving the quality of their own label products in the 1980s, packaged-goods manufacturers in particular were increasing their prices significantly. Though this might work in inflationary times, in the slower growth, more stable, lower inflation 1990s this pricing policy was cruelly exposed as the consumer became more price-value conscious. As a result significant price reductions have been made in categories such as tobacco, cereals and paper products.

Advertising was created as a means for manufacturers to appeal over the heads of the wholesale and retail trade direct to the consumer. The new media could present a revolutionary way of re-establishing this contact through the medium of home shopping allied with direct delivery. Distribution costs often represent as much as 50% of total costs for the manufacturer. Whilst direct communication and delivery will not remove all these costs, they may reduce them significantly. Curiously, however, it is the retailer who is dabbling with these new media.

The effects of competition
European telecoms
% change between 1990-1994

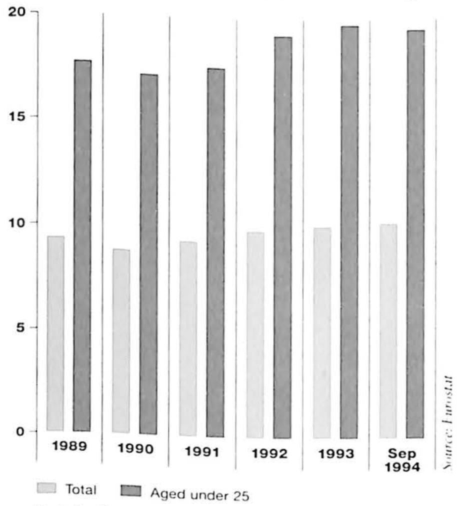


Retail concentration
Actual and cumulative market share
% of UK food retailers*

Rank	Retailer	Share	Cumulative
1	Tesco	19.0	19.0
2	Sainsbury	17.7	36.7
3	Asda	10.5	47.2
4	Argyll	8.8	56.0
5	Kwik Save	5.6	61.6
6	Co-ops	4.8	66.4
7	Somerfield	4.8	71.2
8	Morrisons	3.6	74.8
9	Iceland	2.5	77.3
10	Waitrose	1.4	78.7

*To 7 April 1996

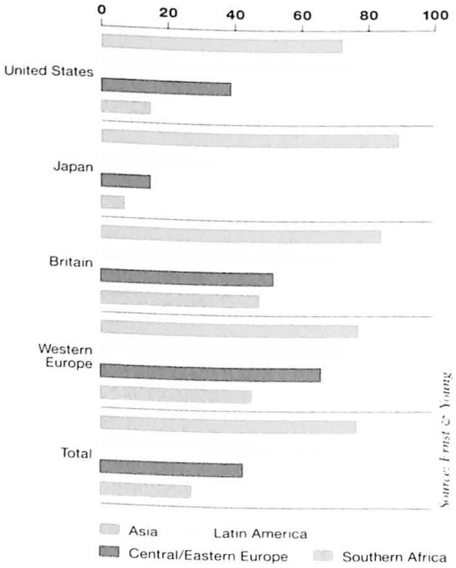
Unemployment rate (%) EU* average



Source: Eurostat

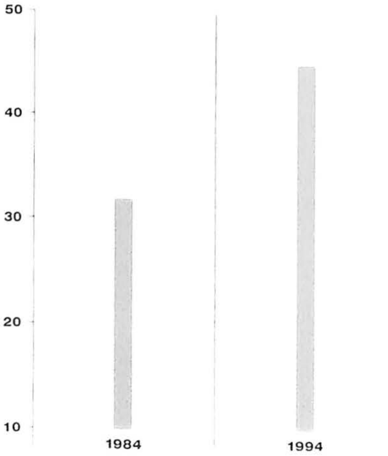
*Includes Eastern Germany from 1991

Multinational investment in growth markets % of companies



Source: Ernst & Young

Internationalisation of multinational companies
% of sales outside home markets



Source: The data shown left is based upon the aggregation of reported revenues for American Express, Ford, IBM, Kellogg, Kodak, Philip Morris, Unilever and Warner Lambert and was sourced from annual reports, Standard & Poors, EXTEL, Valueline

For example, in Germany, two major retailers, Rewe (groceries) and Queller (one of Europe's leading mail order companies) have taken significant stakes in, respectively, Pro Sieben, a national television channel, and Hot order TV, a home shopping channel. Perhaps retailers are more aware of the potential of these new media opportunities because of their closeness to the consumer.

New competitors emerge

No product or service category is safe from new competitors. Not only packaged-goods manufacturers face intensified competition. Strong brand names and value-based products are invading new categories. Who would have thought that in our own industry a small Hollywood talent agency would have displaced McCann-Erickson on the Coca-Cola account? Or that Swatch would go into the automobile business along with Mercedes-Benz? Or that Virgin and Marks & Spencer would enter the financial services business? Or that coming full circle, Virgin would compete with Coca-Cola in the cola business?

Stable growth and low inflation

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

If, and it is a politically difficult if, governments can resist the temptation to prime the economic pump in front of elections, these conditions are likely to continue making it difficult for our clients to pass on price increases to the consumer, which mask inefficiency and remove the incentive to improve operations still further. The sad truth is that our clients prefer a small dose of inflation.

It seems unlikely that governments will be able to resist the political cycle. Twenty five or 30 years ago we were all Keynesians, using fiscal policy to figure out what level of inflation we would tolerate at what we termed full employment. Today we are all Friedmanites, using monetary policy to try and figure out what level of unemployment we can tolerate at what we term zero inflation.

All over the world governments are finding it difficult to deal with the political implications of unusually high levels of unemployment. Whilst unemployment may be declining in the US and in the UK, Germany, France, Italy and Spain are wrestling with historically high unemployment stimulated by high real interest rates, reduced government spending and privatisation programmes, all of which cause significant political pressures – particularly around election time. How long can electorates tolerate unemployment levels of 15% or more, and graduate unemployment levels of up to 60%?

Geographical expansion

Given this background it is easy to see why our clients have expanded the geographical base of their operations so significantly. Whilst 30 years ago many companies believed they were multinational, it is only recently that this has become the case in reality. Even so there is a long way to go. According to recently released US government data the average US company only has 20% of its sales outside the US. So the appropriate model is not Coca-Cola with 80% of its sales and profits outside the US, but Pepsi-Cola with 80% of its sales inside the US. Hence Pepsi's dramatic push into Asia Pacific, Latin America and Central and Eastern Europe.

As a result, growth in advertising and marketing services in Asia Pacific and Latin America continues at double-digit rates, often more than twice those of mature markets. This growth continued during the recession of 1990-1992. Even in a period of economic strength as now, in our own case, these markets are growing 50% faster than the US and Europe. Recent World Bank data highlight the point. In 1996 the mature economies of the US and Europe will grow their GNPs at approximately 2%; the world will average about 4%; the faster growing markets of Asia Pacific and Latin America will grow at roughly 6%. As a result China, India and Vietnam have joined Taiwan, Thailand, Indonesia and Malaysia as lead markets in Asia Pacific. Myanmar will be the next focus for interest with its population of 45 million. Similarly, in Latin America, Colombia and Peru have joined Brazil, Chile, Mexico, Argentina and Venezuela as growth markets.

Client strategies

In response to these challenges facing clients, three basic strategies have developed which seem to vary in emphasis with the economic cycle.

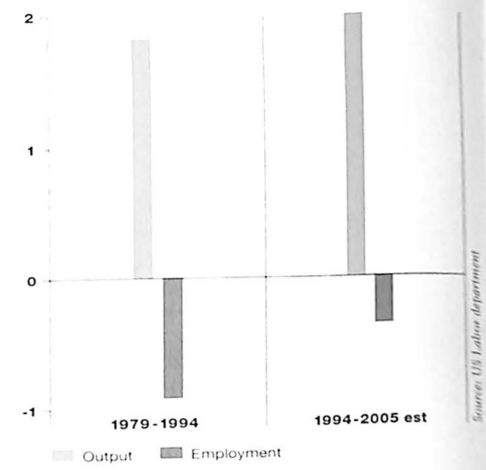
Cost cutting

In the first stages of the downturn in the economic cycle, heavy attention is paid to cost-cutting and the focus is on core activities. At the beginning of the process there is considerable scope for cutting out peripheral activities which have blossomed at the top of the previous cycle. With the development of technology there will continue to be significant opportunities for zero-based budgeting, total quality management, process re-engineering, delayering, down-sizing, outsourcing or whatever other buzzword or process is fashionable at the time. Indeed increased competition will demand it, and it is clear that the old hierarchical model of industrial organisation is not appropriate anymore. Network-type organisations which utilise modern technology are much more relevant. However, after the early downward stages of the economic cycle there seem to be diminishing returns from concentrating on costs, the significant advances having been made.

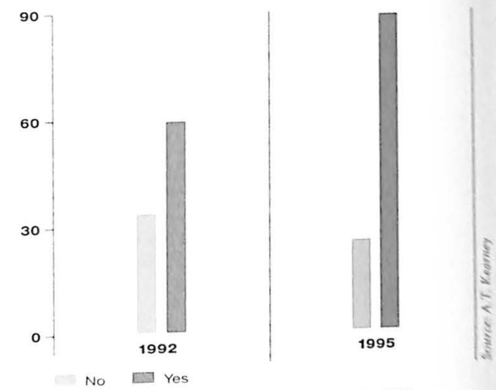
Acquisitions

As concerns about costs start to recede perhaps a boredom factor starts to operate, and chairmen and chief executive officers are attracted by expansion opportunities, stimulated by lower costs of capital as stock markets improve and by lower interest rates. For example in the last cycle, 1990, 1991 and 1992 saw focus on costs and process, whilst 1993, 1994 and 1995 witnessed a significant increase in acquisition activity. An interesting aspect surrounding this acquisition activity is that pricing does not seem to vary very much in relation to the stage in the cycle. Price-earnings multiples and price-to-revenue ratios paid seem to be similar at both the high and low points of the cycle. This seems to reflect both the scarcity of outstanding brands and the difficulty and cost of developing them.

Output versus jobs (%)
US manufacturing

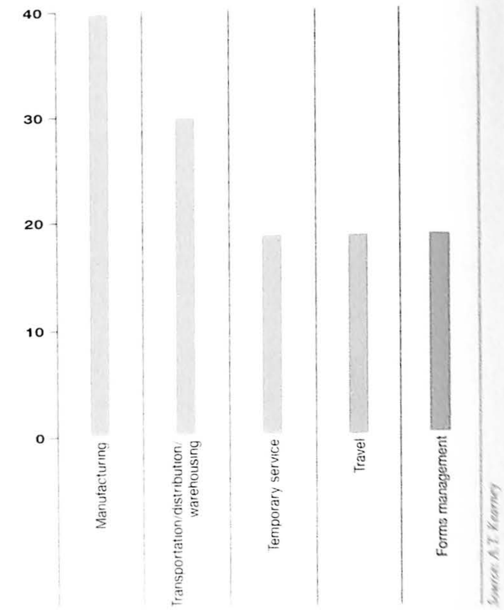


Companies that say they outsource some activity* (%)

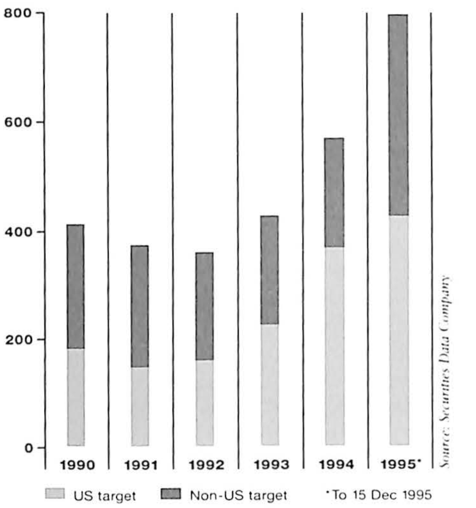


* Survey of 26 major US companies in early 1996

Activities most frequently outsourced by companies surveyed above (%)



Mergers and acquisitions worldwide ($bn)
Deals announced



Worldwide marketing services expenditure 1995 ($bn)

	USA	UK	France	Germany	Japan	Rest of World	Total
Media advertising	156.8	15.0	9.4	18.9	38.9	114.5	353.5
Public relations	14.2	2.3	0.7	0.9	4.0	2.2	24.4
Market research	3.5	1.3	0.8	1.0	0.8	1.9	9.3
Specialist communications*	233.1	33.7	15.9	22.8	44.4	99.1	449.0
Total	**407.7**	**52.3**	**26.8**	**43.7**	**88.1**	**217.7**	**836.2**

*Including Promotions
Source: WPP estimates from various trade sources

Key indicators (%)

	GDP		GDP forecasts		Retail sales	Unemployment (%)	
	3 months*	1 year*	1996	1997	1 year*	Latest	Year ago
Australia	2.0	3.1	3.0	3.1	4.6	8.5	8.7
Austria	7.9	1.2	1.6	2.5	-2.7	7.4	6.3
Belgium	1.6	0.7	1.4	2.3	1.0	13.7	13.6
Britain	1.5	2.0	2.2	3.2	2.9	7.8	8.4
Canada	0.8	0.6	1.9	2.7	-1.2	9.3	9.7
Denmark	-0.2	1.4	1.9	2.4	-1.9	9.1	10.8
France	-1.2	0.7	1.3	2.7	2.9	11.9	11.7
Germany	-1.6	1.0	1.0	2.5	0.0	10.8	9.6
Italy	-3.6	2.3	2.0	2.6	-10.6	12.6	12.1
Japan	3.6	2.2	2.3	2.3	1.9	3.1	3.0
Netherlands	0.7	1.6	1.8	2.5	2.6	7.1	7.3
Spain	1.6	2.6	2.5	2.8	n/a	22.8	23.9
Sweden	1.4	1.7	1.6	2.0	-0.5	7.4	7.6
Switzerland	-0.4	-0.2	0.8	1.9	4.5	4.6	4.4
United States	0.5	1.3	1.9	2.4	2.3	5.6	5.5

*Latest available forecasts
Source: The Economist

Revenue growth

As growth prospects start to improve during the cycle, more attention is paid to top-line revenue growth. Geographical expansion follows and perhaps this is the main reason why advertising expenditures start to pick up, as they did in 1994.

Generally, differentiation between products and services is becoming more and more difficult, and as a result the skills and talents of advertising and marketing services companies will become more and more important. Revenue growth can be stimulated by geographic expansion both nationally and internationally. Manufacturers will continue to look for technological advantages no matter how transitory the advantage. Service in many sectors will become an increasingly important discriminator, especially with the development of direct marketing, and its protégé, the new interactive media. A one-to-one relationship with the consumer will enable marketing companies to develop a better understanding and relationship with the consumer and differentiate themselves more effectively.

The demand for marketing services

Worldwide advertising and marketing services expenditure grew to about $840 billion in 1995. It is expected to grow by about 7% to about $900 billion in 1996. In 1995 the two biggest market segments were worth about $800 billion between them. Media advertising accounted for almost 40% of the total and promotion for about 35%.

The impact of fear of unemployment on the short-term demand for marketing services expenditure

Consumer expenditure and corporate profitability determine the demand for marketing services expenditure. Given the outlook for both factors, 1996 will probably see greater growth over 1995 than 1995 saw over 1994 – approximately 6% to 7% in nominal terms, or 3% to 4% in real terms. The stronger growth rate reflects the quadrennial coincidence of elections in the US and UK, stronger economic growth as a result of the political cycle, and the Olympic Games and European football championships. All this is supplemented by continuing strong growth in Asia Pacific and Latin America.

Although these growth rates are strong, they are not as significant as the rates of the 1980s. They seem to reflect the considerable fear of unemployment amongst both consumers on the demand side and managers on the supply side. As a result, neither group is willing to commit to expenditures, and advertising and marketing services expenditure seems to be lagging rather than leading the cycle. Advertising expenditure is no longer a lead indicator of economic activity.

In an economy characterised by low inflation, tight monetary policy and higher than historical unemployment these conditions may persist. However, as the political cycle kicks in, incumbent governments will seek to stimulate the feel-good factor through a reduction in taxation or increased public expenditure. Whilst this will not damage the demand for marketing services in the short-term, in fact it will stimulate it, in the longer-term there will be the inevitable hard landing and consequent recession that will blunt demand. This is unlikely to happen in 1997, but may do in 1998.

The two long-term trends in the marketing services industry

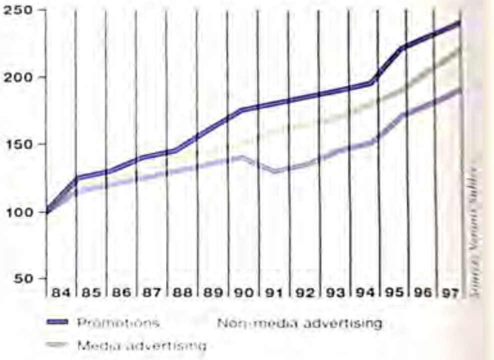
WPP was founded just 10 years ago with two long-term trends in mind, which are even more relevant today.

First, marketing services expenditures continue to grow faster than advertising expenditure. In the 1970s and 1980s, when media inflation outstripped general price inflation and network television was a monopoly, clients started to question the effectiveness of media advertising in general, and television advertising in particular. In the 1990s, with inflation under better control and clients experimenting with different forms of agency remuneration, they have diverted increasing proportions of their advertising and marketing services budgets to marketing services such as direct marketing and interactive marketing, to identity and design, to public relations, to audio-visual and specialist communications.

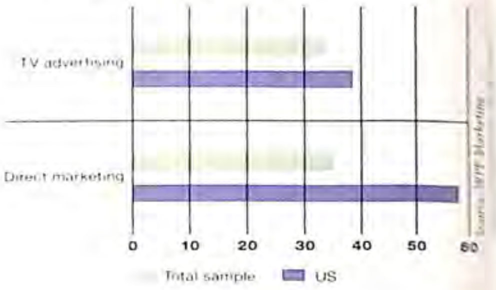
Secondly, advertising and marketing services expenditures are growing faster outside the US than inside. This does not mean that if you are in media advertising in the US that you commit hari-kari, but it does mean that the greater growth opportunities are elsewhere. All the competitive pressures previously identified are driving our clients to explore worldwide opportunities for growth. Over the last decade Korea, the second largest advertising market in Asia Pacific, Taiwan, Hong Kong, Singapore, Thailand, Indonesia, Malaysia, Mexico, Chile, Argentina and Venezuela have become important markets. India, Vietnam, China, Colombia and Peru now follow, with South Africa, Israel and the Middle East not far behind.

Advertising and marketing services expenditure per capita and as a percentage of GDP are considerably lower in these faster growth markets. As a result the balance of this growth is likely to be skewed to Asia Pacific and Latin America as governments are more stable and welcoming rather than Central and Eastern Europe which continues to be constrained by a lack of political stability and infrastructure. Indeed it is possible that growth in Africa and the Middle East will outpace Central and Eastern Europe unless the political and economic situation changes.

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



Client perceptions of media
% of clients who think that each of the following is very good value for money

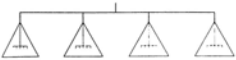


Client priorities
Aspects of marketing which US advertisers will devote a lot more attention to in future

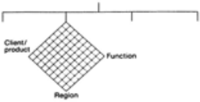
Expansion in new and growing markets: Estimated market growth vs market share

Changing organisational structures: the effect of technology

Traditional or divisionalised



Matrix



Network or cluster

Opportunities and threats

Three related areas – organisational structure, size and people

The need to develop new organisational structures

The common perception is that the advertising and marketing services industry is on the cutting edge of progress, well versed in youth culture, and comfortable with change. Nothing could be further from the truth. Indeed the industry is probably more conservative than lawyers or bankers or accountants or even actuaries. Some of our specialist communications companies with their shorter histories and more entrepreneurial backgrounds do have flatter, more process-driven structures. But despite the fact that our clients have been going through significant structural change, most advertising and marketing services companies remain rooted in the past with functionally driven, silo-like structures. Although many industries have seen radical reductions in their headcounts with as much as 50% reductions by number, our industry squeals with displeasure at relatively minor reductions of under 5%. The strengths of well-established agencies include their institutional qualities; their weaknesses include the inertia that their heritage encourages.

Advertising agency structures remain very much the same as they were some 80 years ago. Indeed in some cases organograms only reveal one change over that period – the editorial publicity department has become the creative department. Vertical department structures predominate, with strategic planning departments dealing with account handling departments and creative, media, production, finance and administrative departments. These structures encourage mis-communication as briefs or messages are passed from one department to another.

However, all is not lost. Another of our strengths is our commitment to following clients, and the strategic and structural changes they are making. Probably the single most common feature amongst all our clients is their desire to co-ordinate their activities both functionally and geographically. They are not searching for economies of scale, but economies of co-ordination or knowledge. This is not in contradiction with modern preferences for autonomy, empowerment or decentralisation. It makes little sense for different parts of an organisation not to share experience or knowledge, particularly when modern technologies are making this process so much easier.

Faced by this situation agencies will have to overhaul their structures. It will require the methods and qualities of the long-gone organisation and methods departments which examined each element of the production process in minute detail. To date such experiments in agency organisation have been largely unsuccessful and not well received. Cluster group experiments where vertical departmental organisations are dropped in favour of horizontal client-based teams have failed in two non-WPP agencies in New York.

Intriguingly, it is the faster-growing markets where the greatest progress is being made. In Bangkok and Manila the strongest creative agencies have organised themselves in a so-called 'fox-hole' structure mimicking the cluster organisation by client. In Buenos Aires, one relatively small agency moved to one floor of a new building and re-organised on similar lines. The diagram and caption overleaf explain how.

Within WPP major progress has been made in this area in Brazil and Hong Kong, and in 1996 14 test beds have been identified in our seven brand profit centres – Ogilvy & Mather Worldwide, J. Walter Thompson Company, Conquest, Kantar, Hill and Knowlton, Ogilvy Adams & Rinehart and Specialist Communications. Each profit centre has identified two operations, either worldwide client groups or offices for process improvement, the battle-cry being 'Better work, faster'.

To some – particularly in the creative departments of advertising agencies – this might seem a long way away from the creative process. However, unless agencies concentrate on how they can improve their working methods to ensure they are more responsive, they will not be in a position to deal on behalf of their clients with the more demanding competitive environment.

Big or small

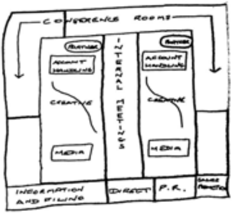
Closely related to the issue of organisational structure is the question of organisational size. The perception is that as organisations grow in size they become less responsive, more bureaucratic and slower. As a result, will large agencies dominate the industry with their breadth of geographical coverage and co-ordination strengths? Or will the smaller agencies with their greater flexibility and responsiveness, reinforced by new technologies, provide clients with the creativity they require and outmanoeuvre their larger competitors? Or alternatively, will large and small agencies co-exist, the large agencies tending to align with multinational and global clients, and the small agencies with national clients or those multinationals who become frustrated with the unresponsiveness of large, bureaucratic agencies?

Perhaps the last scenario is the most likely. 1995 and early 1996 saw a continuation of the large agency consolidations that started with IBM's decision in 1994 to consolidate all its advertising from 40 agencies into one agency – Ogilvy & Mather Worldwide – and represented the largest account move in advertising history. De Beers, Colgate-Palmolive, S.C. Johnson, SmithKline Beecham, Eastman Kodak and Kimberly-Clark/Scott Paper are all recent examples of major clients who have chosen to consolidate their business into large multinational agencies in similar moves.

At the same time agency consolidation through acquisition continues. Chiat Day, TBWA, Ammirati & Puris and Ketchum have all succumbed to the blandishments of IPG and Omnicom despite being run by idiosyncratic and iconoclastic entrepreneurs. According to industry rumour BDDP and N.W. Ayer could go the same way. Why? Clearly the financial inducements were heavy and some companies were financially over-burdened. However, another factor was at work. Many of these agencies found themselves excluded from consideration in the client consolidations referred to above, or out of the running for multinational assignments as a result of the lack of a multinational agency structure. Even some so-called creative hot shops such as Weiden & Kennedy, M & C Saatchi and Simons Palmer who could not stomach their loss of sovereignty have formed non-equity alignments with networks in order to give clients access to global capabilities.

As a result the market share of the bigger agencies has grown and only 16 agencies owned by nine holding companies operate in more than 40 countries. With the exception of Japan or India, where agencies have developed strong market share and

Floor plan of workspace in Buenos Aires



The borderless office

Two client-based groups, including all account, creative and media people, operate on a single floor. All internal meetings are confined to a central cafeteria. All external meetings take place in peripheral conference rooms. There are no offices, even the partners 'sit on the floor'. All personal belongings are kept in lockers to leave the office uncluttered. Each person is allocated two filing drawers and only one copy of any document is retained and kept in a central electronic filing system which is accessed by all. The office is completely wired. Everybody makes his/her own calls and does his/her own faxes and copying. There is a central information department with separate 'open' public relations, sales promotion and direct departments.

Agency acquisitions:
The difficulty of being 'mid-sized'
Top 11-30 US agencies: rank and current status

Rank	Company	Billings ($m)	Status
11	Bozell Worldwide	200.3	Independent
12	D'Arcy Masius Benton & Bowles	191.4	Independent
13	Bates Worldwide	152.1	Owned by Cordiant
14	TMP Worldwide	137.4	Independent
15	TBWA/Chiat Day	130.7	Chiat Day acquired by Omnicom in 1995. TBWA owned by Omnicom
16	Ammirati & Puris Lintas	113.8	Ammirati & Puris acquired by Interpublic in 1994. Lintas owned by Interpublic
17	Gage Marketing Group	108.5	Independent
18	Wunderman Cato Johnson	101.0	Owned by Young & Rubicam
19	N.W. Ayer & Partners	94.1	Reported as being for sale
20	Wells Rich Greene BDDP	89.2	Reported as being for sale
21	Alcone Marketing Group	84.3	Owned by Omnicom
22	Campbell-Ewald	81.8	Owned by Interpublic
23	Rapp Collins Worldwide	80.1	Owned by Omnicom
24	Campbell Mithun Esty	79.2	Acquired by Interpublic in 1995
25	CommonHealth USA	73.2	Owned by WPP
26	Lowe & Partners/SMS	72.5	Owned by Interpublic
27	Messner Vetere Berger McNamee Schmetterer	72	Owned by Havas Advertising
28	Hal Riney & Partners	68.8	Independent
29	Bronner Slosberg Humphrey	67.5	Independent. Linked to Interpublic via a joint venture
30	Ketchum Advertising	66.5	Acquired by Omnicom in 1995

Source: Advertising Age

Recent major account consolidations

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	3
De Beers	2	1
SmithKline Beecham	n/a	2

differentiation is difficult, there is a strengthening oligopoly of international advertising agencies capable of handling multinational client business. This phenomenon is most easily seen when major pieces of multinational business come up for review and the range of options available to clients is limited, particularly when they uphold rigid conflict policies. In the case of Mars, for example, additional choice was effectively limited to two agencies, one of which was eventually conflicted out. Bristol-Myers, having spent six months reviewing its options, did not make significant changes to its agency roster.

At the other end of the spectrum Coca-Cola continued to splinter its agency line-up and move from one or two agencies to over 30. This approach is very different, with the client insisting on developing the strategy and leaving the agency – or, more appropriately, agencies – to be idea factories. The agency functions of strategic planning and co-ordination are of no value and creative execution is the agency's only role.

At the same time clearly new agencies will continue to be born, particularly at the national level. People will continue to leave agencies in a healthy Darwinian-like process to form new agencies. As a result big agencies will have to behave like small agencies, emphasising their creativity, flexibility and responsiveness. On the other hand, small agencies will have to try and act like big agencies, emphasising their scale of resource and capability.

Long-term importance of attracting bright young people

Many people in the advertising and marketing services industry believe there is a dearth of talent at the entry level. However, the problem may well be that not enough effort is made to attract the right people. The problem is not a new one. As with so many other issues David Ogilvy spotted the situation many years ago when he noticed that his friend Marvin Bower, who built up McKinsey & Co. spent much time recruiting the best students. Indeed the situation may well be worse now, as it seems it is not in the nature of senior and middle management in many agencies to want to hire bright young people. Perhaps this is something to do with the industry's inherent sense of insecurity. After all, if agency contracts are on 90 days notice it is difficult to feel secure. In any event although senior managers complain of intense work pressure, high levels of activity and too little resource, at lower levels people complain of too little exposure and challenge. There is a tendency for senior managers to try and wrap their arms around client relationships and prevent broader exposure of clients to others in the firm. Agencies have to figure out the best ways of attracting and developing the best talent, as management consultancies have done. In investment banks, although new recruits will have limited exposure to clients in early days, they are put through a gruelling course throughout the firm.

There is an opportunity here to develop consistent recruitment and training programmes, particularly those that stress multi-disciplinary approaches that clients increasingly demand. Apart from being an extremely enjoyable and agreeable way of earning a living, the advertising and marketing services industry offers just as broad an exposure to a variety of industries, functions and companies as its competitors do. Its excitement lies in its variety, and its ability to influence clients at the highest levels. The challenge is to communicate that excitement and fun as effectively as others have done. As a result, WPP has developed its Fellowship programme offering the best first and second degree graduates a three-year rotational programme through three companies and three different advertising and marketing services disciplines.

Interactive – a non event?

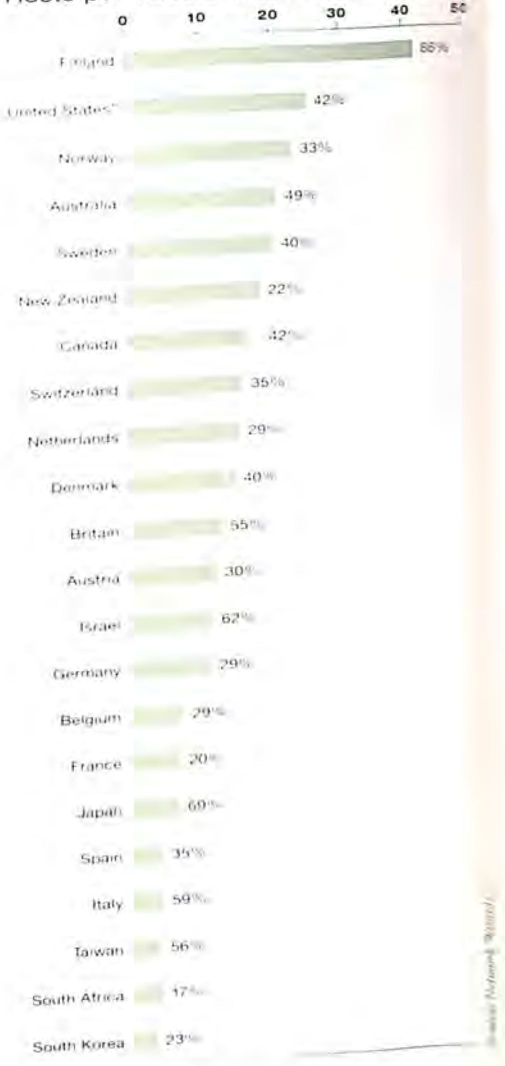
Many colleagues in our industry tend to dismiss the new interactive media. Not so David Ogilvy, who highlighted the future importance of direct marketing, of which the interactive media is its protégé, some 40 years ago. As a result, today Ogilvy & Mather Direct is the world's leading direct marketing company. In a sense interactivity is nothing new. You could argue that something like 80% of newspaper advertising is interactive in some sense, relying on response through box numbers, coupons or telephone numbers. The new interactive media will, however, provide an even more highly effective, targeted way of reaching the consumer. With their far greater cost per thousand the new media will have to develop a stronger case for our clients on the basis of effective cost per thousand rooted in better data on the audience being reached.

The alliances between telecommunications, computer, media, entertainment and consumer electronic companies continue apace, although there have been some significant shakeouts as finance directors exercise their influence over chief executives following years of losses on interactive ventures. As in other fields Asia Pacific and Latin America yield better examples of interactive success than the mature markets. Hong Kong, Singapore, Thailand, Taiwan and Chile are more advanced and successful than experiments in Orlando or Castro Valley. It is likely that the first commercial video-on-demand and home shopping services will be available in the East before the West. There is in truth a lot of confusion and a lot of money will be wasted. The honest investor will admit to technological perplexity and the likelihood of technological obsolescence. However, the interactive media are growing like topsy. Nicholas Negroponte of the Massachusetts Institute of Technology Media Lab estimates that a web site is being created every four seconds on the Internet, and that the number of web users is doubling every 50 days. Now, Nicholas as a result of his evangelical zeal may be prone to exaggeration. However, even if he were to be out by a factor of two or three, the miracles of compound arithmetic mean that the new media will have a rapid and dramatic impact even if web sites are being created every 12 seconds and Internet audiences doubling every 150 days.

As with all previous media, economic success will depend on the development of an advertising revenue model which will subsidise the media's cost. In 1995 the Internet in the US generated only approximately $25 million in advertising revenues. However, forecasts predict a level of $1.6 billion by as early as 1998. To date the only advertising techniques that are being used are banner headline adverts on web pages which are really reference points for web sites. It is here that significant opportunities abound for agencies and their interactive units.

Three key questions have to be answered. What does the consumer want? What is the consumer willing to pay for it? And finally, what is the most appropriate form of advertising content? To date most of the initiatives have come from agency media departments, and it is important that agency creative departments become more involved. Sadly, the Internet has already become more cluttered than network

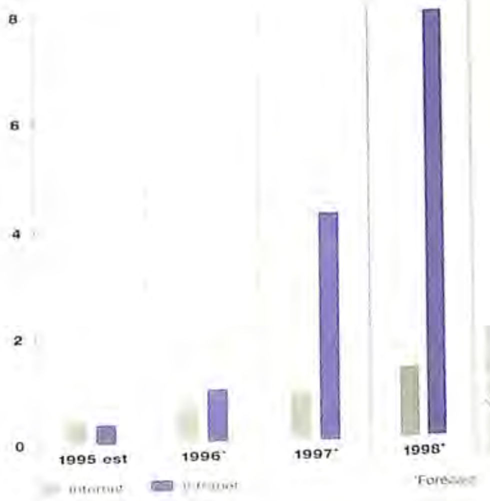
Top Internet countries
Hosts per 1.000 population (Jan 1996)



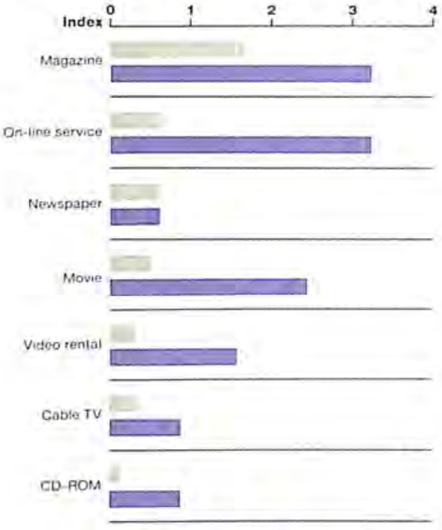
% figures indicates increases from July 1995

*Includes all hosts ending '.com' and '.net' which exaggerates the US total

Server revenue ($bn)



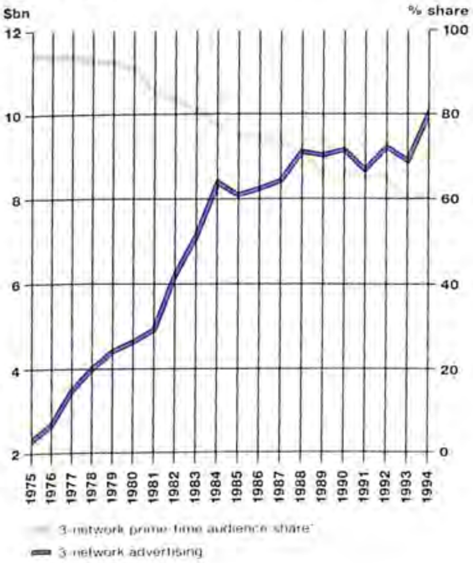
Advertising will make access cheaper



Note: The cost of access if all media at the level of newspaper advertising support

Source: Wired

US television network dynamics
1975-1994



*For September-April

Source: Veronis Suhler, Wilkofsky Gruen Associates, A.C. Nielsen, McCann Erickson

television and a lot of its material is sub-standard and poor quality. The skills of advertising and marketing services companies can be used most effectively in these areas. Current developments in the interactive area mirror early stages in the growth of other consumer products where engineering led the way, and marketing thinking was relatively slow to develop.

The need for media power and greater co-ordination of creative and media

The early 1990s have seen the growth of new media conglomerates. Examples such as the ubiquitous Rupert Murdoch's News Corporation, Disney/ABC, the proposed Time Warner/Turner Broadcasting alliance, Westinghouse CBS, NBC and Microsoft, and GE and Netscape are not confined to the mature markets. In South America, Grupo Televisa (Azcarraga), Globo (Marinho), TCI (Malone) and News Corporation (Murdoch) have developed an alliance and Hughes is developing its satellite network. These companies, which are not really conglomerates but relatively focused media owners, are intent on developing their media networks throughout the world, much as our clients have done in response to that trend. They are looking to develop their programming and advertising revenues globally, and in particular in the faster growing markets of Asia Pacific, such as China and India, and Latin America such as Mexico, Argentina and Brazil.

The development of these new media conglomerates represents a major opportunity for agencies to negotiate transparent worldwide media deals on behalf of their clients. As the conglomerates wish to expand their penetration of the newer, faster growing markets and have significant capacity in the older, slower growth markets, major media buyers could negotiate attractive arrangements spanning all markets. Not many of the new media companies will be well enough co-ordinated to execute these arrangements, but at least News Corporation and Disney/ABC probably will be. In these circumstances media power will become increasingly important in these negotiations. So will the ability of agency people to 'walk with' media owners as well as clients. Agency chiefs have tended to underestimate the importance of the media function, and as a result media departments have not been granted access to the human and capital resource necessary. This will have to change as the media function assumes a role almost as important as the creative function. In fact, the agency roles of strategic thinking, creative execution and co-ordination apply equally to the media area.

Despite the significant fragmentation of the media in the 1980s and 1990s as the cost of producing television, newspapers, magazines and radio has declined, media price inflation is still a significant concern to our clients. Perhaps due to cyclical rather than secular factors, in 1995 in both the US and UK, network television advertising pricing rose by almost 10% in nominal prices. Quite rightly our clients do not like paying more for less and would not tolerate a similar 7% increase in the price of labour or capital or any other input. Again in these circumstances media power will become increasingly important, and it will increase effectiveness if media buying capabilities are concentrated rather than splintered.

In the longer-term, media fragmentation will encourage clients to focus on effective cost per thousand as they will have the opportunity of reaching consumers in a more targeted but higher-cost way. In these circumstances it will be even more important to link the creative and media functions as it will be increasingly difficult to develop creative executions across a broad range of media. In the 1990s, perhaps as a result of cyclical pressures, some clients have examined unbundling their creative and media requirements as a means of reducing their costs. This may well prove to be short-sighted given the increasing need for co-ordination between media and creative, which will not be achieved by splitting the advertising function between creative boutiques and media buying companies.

More strategic thinking required

All advertising and marketing services are becoming more executional. Probably as a result of competitive pressures clients have been encouraging their advertising agencies, market research companies, public relations consultants and specialist communications advisors to come up with quick fixes. Creative hip-shooting has been more highly valued than well thought-through strategic brand development.

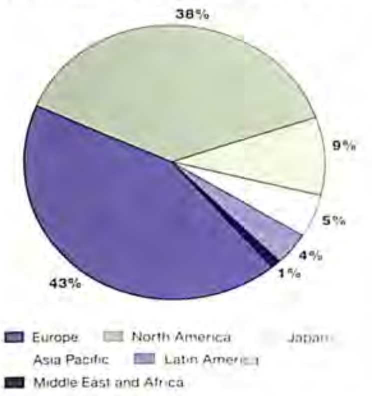
In recent years management consultancies have turned their attention increasingly to marketing strategy, as the distinction between this discipline and business strategy has become blurred. In fact marketing strategy really is business strategy, starting with the needs of the consumer. As a result McKinsey, Bain, Boston Consulting Group, The Monitor Company and even Andersen Consulting have started to look at how marketing budgets are allocated and marketing departments structured. In addition they have started to recruit staff to advise on such areas.

As a result advertising and marketing services companies are in danger of being pushed further down the value chain, despite their enormous reservoirs of marketing knowledge and experience of branding. They risk having their services become more commodity-like, with margins coming under increasing pressure. There are a number of ways this problem can be addressed. First, a consulting capability could be acquired, although this approach has been compromised by previous unsuccessful and unfocused attempts. Secondly, a stronger internal capability could be developed at the parent company or operating company level, by recruiting or training people with greater strategic skills. Thirdly, they could use as a base those parts of their organisation that are more strategic in terms of the knowledge they use. Finally, they could form strategic alliances with suitable consulting partners, who lack access to the marketing function of clients, or who are regarded by clients as lacking marketing know-how.

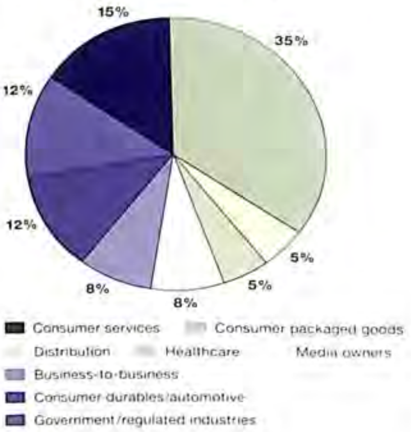
Remuneration and conflict policies

Fee-based remuneration has increased over the last 10 years. In WPP's case it now accounts for approximately 30% of advertising commission and fee income. However over the last two or three years there have been major re-negotiations with many large clients such as Kraft Foods, Nestlé and Unilever which have resulted in commission arrangements remaining in place. Commission levels in all these arrangements start at approximately 13%, with media buying accounting for approximately $1^1/_2$% to 2%. In addition, there are success commissions giving total commission levels of as much as 17%, often based on achievement of mutually agreed profitability objectives or

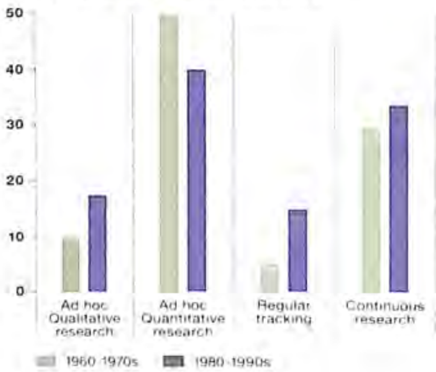
World market research spend 1995



Spend by business sector



Structure of world market



Top 10 research companies

Rank	Research company	$m revenues
1	D&B MIS	2043
2	Kantar	363
3	IRI	312
4	GfK	236
5	Sofres	206
6	Video Research	134
7	Infratest Burke	129
8	Arbitron	121
9	Westat	119
10	Ipsos	117

sales or market share targets. This willingness to develop an attractive commission-based structure probably reflects the growing importance and difficulty of service or product differentiation, the relative scarcity of multinational agencies, and the simplicity of the arrangement.

There are also some signs of a weakening of client conflict policies, as clients wrestle with the difficulties that increasing globalisation, acquisitions, mass product launches and joint ventures bring. For example, Mars is now prepared to look at individual agency networks for conflict purposes rather than just holding companies. Procter & Gamble has also loosened its category conflict policies.

Market research and corporate identity become global businesses

The market research industry has exhibited strong single and double digit growth even during the recession of the early 1990s. The demand side has been stimulated by worldwide expansion of clients, the increasing difficulty and risk of intuitive decision-making, and increased demand from privatised utilities, governments and service industries. On the supply side, client outsourcing has driven the need to co-ordinate research on a worldwide basis and concentrate supplier relationships. As a result, our market research networks have developed significant new relationships spanning 30 or 40 countries over the last two or three years with our top 10 clients in the areas of custom research, copy testing and advertising tracking. A similar opportunity may be about to happen in the application of new technologies. Interactive media will ease and improve the speed and efficiency of data collection and sampling. Virtual reality technologies may well significantly alter the nature of market research and its approach.

As a result of worldwide expansion, increased merger and acquisition activity and joint ventures, the corporate identity industry is following a similar course to the advertising and market research businesses. There is a significant increase in demand for multinational firms who can execute identity programmes on a worldwide basis.

What's P&G really up to?

In early 1996 the London *Sunday Times* carried a headline that suggested that the world's largest advertiser, Procter & Gamble was cutting its advertising. In fact, as was clear from the full text of the leaked P&G memorandum that was subsequently published in the trade press, P&G was actually reducing the proportion of its revenues that it spends on advertising and marketing support (approximately $8 billion) from approximately 25% to 20% by the year 2000. To those of a mathematical persuasion it will be clear that this could actually mean an increase in P&G's advertising budgets depending on what happens to sales.

In any event it is instructive to examine more closely P&G's marketing behaviour, as it reflects quite closely what others are doing, and may indicate a secular change in the balance between above-the-line brand advertising support and price loyalty building below-the-line trade promotion.

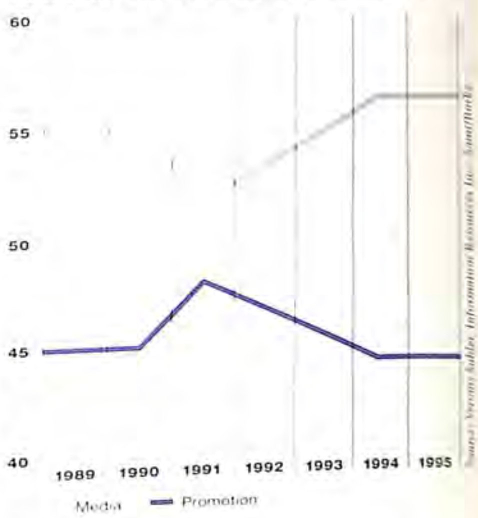
In the high inflation 1980s it was relatively easy for price hikes to be passed on to a less price-sensitive consumer who in turn was receiving relatively high increases in money wages. At the same time, store brands or own label products represented relatively low quality alternatives to manufacturers' brands. Manufacturers also sought to leverage the power of their brands by extending or stretching them as far as they would go through line extensions or new product introductions.

In the lower inflation, lower growth, higher unemployment 1990s this strategy is no longer applicable. More price-value conscious consumers have become concerned about unemployment. They are unwilling to pay a significant premium, often as much as 50% for manufacturers' brands, particularly as retailers have started to introduce better quality store brands and own label products, often with different qualities at different price points. Retailers have established own labels or store brands as brands in their own right. At the same time manufacturers have started to question the wisdom of pouring more and more money into trade promotion to secure distribution, when all it seems to do is to encourage price loyalty amongst consumers. In other words consumers wait for the products to come on offer, and go elsewhere when the promotion ends.

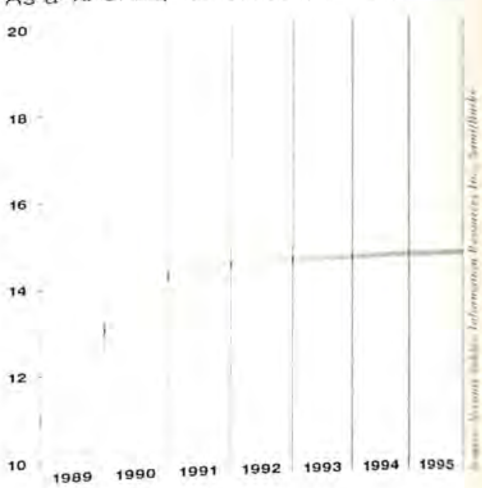
In these circumstances a change in strategy is required. In P&G's case this has been reflected in a reduction and stabilisation of prices through so called everyday low pricing and an increase in its media advertising. This was financed by a reduction in trade promotion, a whittling down of the number of products and greater focus on its stronger brands. The only figures available on P&G's media advertising expenditure prior to publication of this piece cover the first nine months of 1995. Over this period P&G increased its media advertising expenditure on its top eight brands by over 25% on average. The only brand on which it reduced its spending, Crest, lost share significantly to Mentadent, Unilever's brand, and as a result increased spending in the third quarter to twice the level of the first six months. Overall media spending on all P&G brands increased by over 4%. All this clearly shows a concentration of increased media spending on core brands combined with reduced pricing and trade support. At the same time P&G is testing a reduction in coupon activity.

P&G's behaviour has been replicated elsewhere by other clients to such an extent that for the first time for many years promotion's share of advertising and promotion has declined. In addition store brands' market share has also topped out, and media advertising has increased. All this seems to indicate a resurgence in the importance of branding and media advertising. The difficult thing to figure out is how much of the change in strategy is due to secular changes in behaviour and how much is a more tactical response to the upward turn of the cycle. Time, and next year, will tell.

Total US marketing spending (%)



Private label
As a % of supermarket spending



Financial report

Contents

Board of Directors

Board of Directors

Gordon Stevens *Age 70*
Chairman (non-executive)
Gordon Stevens became Chairman of WPP in August 1992. Previously he had a distinguished international marketing and management career with Unilever, ultimately as chairman of the company's North American operations and for 12 years he served on the main Board. He became chairman of Scholl plc, the international personal products company, in 1990.

Martin Sorrell *Age 51*
Group chief executive
Martin Sorrell joined WPP in 1986 as a director, becoming Group chief executive in the same year. He is also a non-executive director of Storehouse plc.
e-mail: msorrell@wpp.com

Robert Lerwill *Age 44*
Group finance director
Robert Lerwill joined WPP in 1986 as Group finance director. Previously he worked with Arthur Andersen for 13 years servicing UK and international public company clients.
e-mail: rlerwill@wpp.com

Brian Brooks *Age 40*
Director, human resources
Brian Brooks joined WPP in September 1992. Previously he was a partner at Towers Perrin in New York and London, specialising in human resources and employee compensation.
e-mail: bbrooks@wpp.com

Gordon Sampson *Age 72*
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.

Jeremy Bullmore *Age 66*
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 66*
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.

Sir Paul Judge *Age 47*
Non-executive director
Sir Paul Judge was appointed a director in 1991. He spent 12 years with Cadbury Schweppes, ultimately as group planning director, before leading a management buy-out in 1985 to form Premier Brands. He is a benefactor of the Judge Institute of Management Studies at Cambridge University, and is a Ministerial Adviser at the Cabinet Office.

Stanley Morten *Age 52*
Non-executive director
Stanley Morten was appointed a director in 1991. He is the chief operating officer of Punk, Ziegel & Knoell, 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.

John Quelch *Age 44*
Non-executive director
John Quelch was appointed a director in 1987. He is the Sebastian S. Kresge Professor of Marketing at Harvard University Graduate School of Business Administration. A prolific writer on marketing and public policy issues, he is the author of 12 books on marketing management. He is also a non-executive director of Reebok International Ltd and US Office Products Company.

Senior WPP executives and advisers to the Board

Parent company senior executives

Company secretarial and legal
M W Capes *(Company secretary)*
D F Calow

Specialist communications and design
J F Zweig
S Sampson
J H Wardle

Group strategy and practice development
E Salama
M C Scott

Communications/investor relations
F McEwan
A H N Hall

Financial and management reporting
M E Howe
D Barker
R C Clementson
J Drefs
W F Hickson
N P Douglas

Internal audit
D G Errington
L A Mellman

International tax
D M Roberts
T O Neuman
M L Rooker

International treasury
P W G Richardson
(deputy Group finance director)
R Meehan
S M Howard

Human resources
A R Jackson

Property
A M Burkitt
J Murphy

Procurement
P E Williams

Information technology
D MacBlane
D A S Nicoll
L H Baxter

Merchant bankers

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

Merrill Lynch International
Ropemaker Place
29 Ropemaker Street
London
EC2Y 9LY

HSBC Samuel Montagu
10 Lower Thames Street
London
EC3R 6AE

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

Legal advisers

Allen & Overy
One New Change
London
EC4M 9QQ

Clifford Chance
200 Aldersgate Street
London
EC1A 4JJ

Davis & Gilbert
1740 Broadway
New York
NY 10019

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

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

New Bridge Street Consultants
Tallis House
Tallis Street
London
EC4Y 0BJ

Towers Perrin
335 Madison Avenue
New York
NY 10017-4605

Property advisers

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

Knight Frank & Rutley
32 Coleman Street
London
EC2R 5AA

Directors' responsibilities

Corporate governance

During 1995, 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 59.

Directors' operational role and responsibilities

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

Non-executive directors of the Company are drawn from a diverse range of backgrounds in order to provide a wide range of views in respect of the business, financial and strategic activities of the Group. Although certain non-executive directors hold shares in the Company, in order to enhance their independence they do not participate in the Company's share options schemes. 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, S W Morten and Sir Paul Judge.

Compensation committee

The Compensation committee, whose report is set out on pages 44 to 53, reviews the remuneration and terms of employment of executive directors and senior executives of the Company, and directors and senior executives in subsidiary companies. The committee comprises the following non-executive directors: Messrs S W Morten (chairman), G K G Stevens and Sir Paul Judge.

Nomination committee

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

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.

Internal financial controls continued

Operating unit controls
Procedures have been developed whereby operating units complete Self-Certification Questionnaires confirming compliance with key financial controls and procedures. These questionnaires are reviewed by the internal auditors and the results reported to the Audit committee. The director of internal audit reports on a regular basis to the Audit committee.

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 1996 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 44 to 53.

Remuneration of the directors was as follows:	Location	Salary and fees £000	Benefits £000	Short-term incentive plans (annual bonus) [1] £000	1995 Total £000	1994 Total £000	Long-term incentive plans [2] 1995 Total £000	Long-term incentive plans [2] 1994 Total £000	Pension contributions 1995 Total £000	Pension contributions 1994 Total £000	Other 1994 Total £000
Chairman											
G K G Stevens	UK	175	-	-	175	175	-	-	-	-	-
Executive directors											
M S Sorrell	UK/USA	730 [6]	16	706	1,452	1,291 [8]	877 [3]	-	318 [7]	110 [7]	950 [9]
R E Lerwill	UK	225	19	113	357	342	221 [4]	-	85	85	-
B J Brooks	USA	158	2	79	239	246	900 [5]	-	17	17	-
G C Sampson	UK	68	5	-	73	80	-	-	-	-	-
Non-executive directors											
J J D Bullmore	UK	75	17	-	92	95	-	-	-	-	-
J Jackson	UK	20	-	-	20	20	-	-	-	-	-
Sir Paul Judge	UK	20	-	-	20	20	-	-	-	-	-
S W Morten	USA	22	-	-	22	23	-	-	-	-	-
J A Quelch	USA	77	-	-	77	65	-	-	-	-	-
Total remuneration		1,570	59	898	2,527	2,357	1,998	-	420	212	950

Notes

Short-term incentive plans (annual bonus)

1 Amounts included in short-term incentive plans represent bonuses in respect of 1995 performance, paid in 1996.

Long-term incentive plans

2 Amounts included in long-term incentive plans represent awards paid under the performance share plan, details of which are referred to on page 46 and the exercise of share options during the year.

3 The performance share plan award, whilst payable in cash, was satisfied by 535,043 ordinary shares of 10p (which have been retained), from a WPP Group plc Employees' Share Ownership Plan Trust ('ESOP') at a price of 164p per share.

4 The performance share plan award was paid in cash.

5 Includes the value of a stock option amounting to £736,365 exercised and an award (payable in cash) under the performance share plan which was satisfied as to 50% of the award in cash and 50% by 49,858 ordinary shares from the ESOP at a price of 164p per share.

Salary/fees and pension

6/7 The amount of salary and fees comprises the fees payable under the UK Agreement and the salary payable under the US Agreement referred to on page 48 converted into £ Sterling at $1.5782 to £1. The 1995 pension contribution represents a contribution of £261,147 payable to JMS Financial Services Limited ('JMS') under the UK Agreement towards the pension provided for Mr M S Sorrell's benefit by JMS and a payment of £57,026 (converted at the same exchange rate) payable to Mr Sorrell under the US Agreement. The 1994 pension contribution relates to the period 1 September 1994 to 31 December 1994 payable pursuant to the UK Agreement as to £90,000 and pursuant to the US Agreement as to £20,000. In 1995, 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.

8 This amount has been restated to include amounts of £35,000 and £31,000 in relation, respectively, to salary/fees and short-term bonus payable pursuant to the UK and the US Agreements for the period 1 September 1994 to 31 December 1994.

9 This amount comprises a payment of £50,000 in respect of costs incurred by JMS and Mr Sorrell in relation to the new service arrangements set out in the circular of 2 June 1995, referred to on page 48 and also a sum of £900,000 in relation to the settlement of previous contractual entitlements and in consideration of giving new restrictive covenants as referred to on page 49. The amount of £900,000 whilst relating to an obligation which arose in 1994, has not yet been paid. When it is paid it will be utilised to acquire the 747,252 ordinary shares currently held by the trustees of the Capital Investment Plan referred to on page 48. The disclosure of directors' emoluments for 1994 has consequently been restated.

Share options

Outstanding options granted to the directors are as follows:

	At 1 Jan 1995 Number	Granted/ (lapsed) 1995 Number	Exercised 1995 Number	At 31 Dec 1995 Number	Granted/ (lapsed) 1996 Number	Exercised 1996 Number	At 5 May 1996 Number	Exercise dates Commencement	Expiry	Exercise price per share	Market price per share on date of exercise
B J Brooks	626,694	-	(626,694)	-	-	-	-	Sep 1995	Sep 2002	29.5p	147.0p
	229,331	-	-	229,331	-	-	229,331	Sep 1996	Sep 2003	102.0p	
	180,717	-	-	180,717	-	-	180,717	Sep 1997	Sep 2004	119.0p	
	-	68,967	-	68,967	-	-	68,967	Dec 1998	Dec 2005	158.0p	
R E Lerwill	58,674	-	-	58,674	(58,674)	-	-	Apr 1989	Apr 1996	307.0p	n/a
	16,548	-	-	16,548	-	-	16,548	Apr 1990	Apr 1997	647.0p	
	11,632	-	-	11,632	-	-	11,632	Sep 1990	Sep 1997	589.0p	
	58,777	-	-	58,777	-	-	58,777	Sep 1991	Sep 1998	429.0p	
	535,162	-		535,162	-	-	535,162	Apr 1996	Apr 2003	52.5p	
	321,981	-	-	321,981	-	-	321,981	May 1996	May 2000	52.5p	
	195,652	-	-	195,652	-	-	195,652	Apr 1997	Apr 2004	115.0p	
	-	166,667	-	166,667	-	-	166,667	Apr 1998	Apr 2005	108.0p	
	-	41,667	-	41,667	-	-	41,667	Apr 1998	Apr 2002	108.0p	
G C Sampson	-	4,313	-	4,313	-	-	4,313	Apr 1998	Apr 2005	108.0p	
M S Sorrell	190,476	-	-	190,476	-	(190,476)	-	Apr 1996	Apr 2003	52.5p	209.5p

The closing share price at 31 December 1995 was 164p and the share price during the year ranged between 100p and 168p.

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

Rights to additional fees, in the form of phantom options, were granted to JMS in relation to 1993 over 2,196,190 ordinary shares at an exercise price of 52.5p per share, exercisable between April 1996 and April 2003 and in relation to 1994 over 577,391 ordinary shares at an exercise price of 115p per share, exercisable between April 1997 and April 2004.

As at 5 May 1996, JMS (although entitled to) has not exercised the rights to any of the additional fees referred to above.

Other outstanding Long-term Incentive Plan awards granted to directors are as follows:

	At 1 Jan 1995 Number	Granted 1995 Number	Vested 1995 Number	At 31 Dec 1995 Number	Granted 1996 Number	Vested 1996 Number	At 5 May 1996 Number	Performance period	Price per share on valuation date
B J Brooks	99,715	-	-	99,715	-	(99,715)	-	1 Jan 93 to 31 Dec 95	164.0p
	72,000	-	-	72,000	-	-	72,000	1 Jan 94 to 31 Dec 96	
	-	48,869	-	48,869	-	-	48,869	1 Jan 95 to 31 Dec 97	
	-	-	-	-	73,933	-	73,933	1 Jan 96 to 31 Dec 98	
R E Lerwill	134,615	-	-	134,615	-	(134,615)	-	1 Jan 93 to 31 Dec 95	164.0p
	97,200	-	-	97,200	-	-	97,200	1 Jan 94 to 31 Dec 96	
	-	69,140	-	69,140	-	-	69,140	1 Jan 95 to 31 Dec 97	
	-	-	-	-	101,124	-	101,124	1 Jan 96 to 31 Dec 98	
G C Sampson (2)	-	-	-	-	-	-	-		
M S Sorrell (3)	535,043	-	-	535,043	-	(535,043)	-	1 Jan 93 to 31 Dec 95	164.0p
	386,420	-	-	386,420	-	-	386,420	1 Jan 94 to 31 Dec 96	
	-	6,445,912	-	6,445,912	-	-	6,445,912	4 Sep 94 to 4 Sep 99	

Notes

1 All awards shown on this table, except the 6,445,912 shares referred to in note 3, awarded to Mr M S Sorrell in 1995, were made under the performance share plan (formerly performance unit plan) details of which can be found on page 46.

2 Mr G C Sampson does not participate in any form of Long-term Incentive Plan other than the WPP Executive Share Option Scheme.

3 The award of 535,043 shown in the above table has been retained in ordinary shares. The 6,445,912 shares represent the maximum number of shares which could vest, assuming that all of the criteria specified were met under the Capital Investment Plan and the Notional Award Plan, details of which were contained in a circular sent to share owners on 2 June 1995 and approved by share owners on 26 June 1995.

Directors' interests

Ordinary shares

Directors' interest in the Company's share capital, all of which were beneficial, were as follows:	At 1 Jan 1995	Shares acquired through long-term incentive plan awards in 1995 (1) Vested	(sold)	Other movements 1995 purchased/ (sold)	At 31 Dec 1995	Shares acquired through long-term incentive plan awards in 1996 (1)	At 5 May 1996
B J Brooks	10,000	626,694	(546,694)	-	90,000	49,858	139,858
J J D Bullmore	20,065	-	-	-	20,065	-	20,065
R E Lerwill	73,738	-	-	-	73,738	-	73,738
S W Morten	-	-	-	20,000	20,000	-	20,000
J A Quelch	10,000	-	-	-	10,000	-	10,000
G C Sampson	550,000	-	-	-	550,000	-	550,000
M S Sorrell	2,439,730	-	-	847,252 (2)	3,286,982	725,519	4,012,501
G K G Stevens	18,000	-	-	-	18,000	-	18,000

Notes

1 Includes both the awards of ordinary shares under the performance share plan and the exercise of share options under the Executive Share Option Scheme.

2 Includes 747,252 ordinary shares held by the trustees to the Capital Investment Plan described on pages 48 and 49.

Subscription warrants

Subscription warrants held by directors, all of which were beneficial, were as follows:	At 1 January 1995	At 31 December 1995	At 5 May 1996
J J D Bullmore	375	375	375
R E Lerwill	7,509	7,509	7,509
M S Sorrell	116,285	116,285	116,285

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

Other interests

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.

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

Rotation of directors

Details of the directors who under the Articles of Association of the Company are to retire by rotation are set out in the Notice of Annual Meeting.

Substantial share ownership

As at 5 May 1996, the Company has been notified of the following interests of 3% or more in the issued ordinary share capital of the Company.

	%
Fidelity	6.88
General Accident	4.07

The disclosed interest of Fidelity refers to the combined holdings of FMR Corp., Fidelity International Limited and Edward C Johnson III (the principal shareholder of these companies), and that of General Accident to the combined holdings of funds managed by General Accident and Provident Mutual.

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

Profits and dividends

The profit on ordinary activities before tax for the year was £113.7 million (1994: £85.3 million). The directors recommend a final ordinary dividend of 0.865p (net) (1994: 0.75p) per share to be paid on 15 July 1996 to share owners on the register at 18 June 1996 which, together with the interim ordinary dividend of 0.445p (1994: 0.385p) per share paid on 30 November 1995, makes a total of 1.31p (net) for the year (1994: 1.135p). No dividends were paid in respect of the Company's Convertible Cumulative Redeemable Preference shares (1994: 1.7¢ per share). The retained profit for the year of £59 million is carried to reserves.

Group activities

The principal activity of the Group continues to be the provision of advertising and marketing 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 9, 10 and 25.

Share capital

Details of share capital movements are given in note 20.

Charitable and political contributions

The Group contributed £0.3 million to UK charities in 1995 (1994: £0.3 million). No contributions were made to political parties.

Close company status

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

Auditors

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

By Order of the Board
M W Capes
Secretary
16 May 1996

Compensation committee report

This report by the WPP Group plc Compensation committee (the 'Compensation committee') on behalf of the Board conforms with the changes to the Listing Rules of the London Stock Exchange which were introduced following publication of the Greenbury report on directors' remuneration, even though not all those changes apply to the year under review. Additional information on executive remuneration similar to a US proxy disclosure which is filed by the Company's main US-based competitors 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 compensation for directors and senior executives during 1995. The Report of the Auditors on the financial statements set out on page 58 confirms that the scope of their report covers the disclosures contained or referred to in this Report that are specified for examination by The London Stock Exchange.

Details of each individual director's compensation are set out on page 40 and information of their beneficial holdings of the Company's shares and warrants and option over shares on pages 41 and 42.

Role of the Compensation committee

The Compensation committee is comprised only of non-executive directors, currently S W Morten (Chairman of the committee), G K G Stevens and Sir Paul Judge. 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, as appropriate, of independent executive remuneration consultants, is responsible for establishing and overseeing the implementation of the 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 for and grants relating to ownership of WPP shares (in this Report referred to as 'WPP stock');
- pensions; and
- other executive benefits.

The Compensation committee determines all remuneration matters, including 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 and also for the chief executives of the operating companies.

The Compensation committee determines the remuneration of the Group chief executive, a summary of which is set out on pages 48 and 49, on the basis of a comparison with the chief executives of other global, multi-agency advertising and marketing services holding companies, including the Omnicom Group and The Interpublic Group of Companies. The remuneration of the other executive directors of the Company is based on a comparison with comparable positions in multinational companies of a similar size and complexity, and based in either the UK or the US, depending on the location of the director.

The following summaries set out the criteria taken into account by the Compensation committee in relation to the different elements of total compenstion.

Compensation policy for executive directors and senior executives

The compensation programmes established for executives of the Group's operating companies as well as the parent company are designed to provide competitive total remuneration opportunities which will attract, retain and motivate the best talent available in the advertising and marketing services industry. A significant and growing portion of the total remuneration opportunity for all senior executives is variable and tied to the achievement of specific, quantifiable performance objectives, in order to align executive rewards with increasing the value of the Group to share owners. In addition, the total remuneration programme includes significant opportunities to acquire WPP stock consistent with the Group strategy of building a strong stock ownership culture among key employees.

The following comprise the principal elements of executive remuneration, each of which is designed to further the objectives described above.

Base salaries

Base salary levels are established by reference to the median base salary for similar executive positions in directly comparable businesses. In the case of the parent company, this includes other global multi-agency holding companies in the advertising and marketing services industry including Cordiant, The Interpublic Group of Companies and Omnicom Group as well as other types of multinational services companies. For J. Walter Thompson Company and Ogilvy & Mather Worldwide, the competitive market is defined to include other major multinational advertising agencies based in the United States. For each of the other operating companies in the Group, a comparable definition of business competitors is used to establish competitive median salaries. Individual salary levels are set within a range of 15% above or below the competitive median, taking a number of relevant factors into account, including individual 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 either the chief executive officer or the compensation committee 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 and reviewed by the Compensation committee.

Annual incentive compensation

Annual incentive compensation is payable under formalised incentive plans established for each operating company and for executives of the parent company. Groupwide, there are approximately 1,500 participants in annual incentive plans, or 7% 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 established by the Compensation committee. In the case of each operating company, performance targets for determining the overall level of annual bonuses are agreed with the Group chief executive each year and are defined in terms of one or more of the following performance criteria:

- operating profit or operating cash flow;
- operating profit margin;
- improvements in the staff cost to revenue ratio;
- revenue growth or revenue conversion; and/or
- Group co-operation.

Individual bonuses are payable in cash from the available bonus pools and are determined on the basis of achievements against individual performance objectives, encompassing key strategic and financial performance criteria. For the senior management of each operating company, these objectives include the performance criteria listed above and other important strategic objectives. In each case, the annual incentive objectives relate to the employees' own operating company, division, client or functional responsibility. For parent company executives, annual incentive objectives are specific to the financial performance of the Group and to their area of 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 annual incentive for the Group chief executive is 67% of base fees/salary and the maximum is 100%. For the other Group executive directors the target is 40% of base salary and the maximum is 60%. For the most senior executives in the two major advertising agencies, the target award is 50% of base salary and the maximum award is 75%.

Long-term incentive compensation

Long-term incentive compensation comprises a significant portion of total remuneration for senior executives in the parent company and each operating company. Groupwide, approximately 300 or 1.5% of all employees participate in a long-term incentive plan.

Parent company

The long-term incentive programme for executive directors (excluding, as referred to below, the Group chief executive) and a small number of additional parent company executives consists of annual grants of WPP performance shares. This programme has operated in tandem with annual WPP stock option grants through 1995, but it is intended that it will represent the only long-term incentive for executive directors (other than the Group chief executive) from 1996. The value of each performance share is equivalent to one ordinary share of WPP. The number of shares which vest over each three-year performance period is dependent on the total share owner return of WPP relative to the total share owner return of a group of seven major publicly traded multinational marketing services companies, over the same period. These companies are Asatsu, Cordiant, Grey Advertising, The Interpublic Group of Companies, Omnicom Group, RSCG Eurocom 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 for the period 1996-98, 50% of the performance shares vest (25% in prior periods), with higher percentages vesting if the Group's total share owner return exceeds the median of the peer group up to 100% where WPP ranks equal to or higher than the second highest ranking peer company.

Over the first performance period which was from 1 January 1993 to 31 December 1995, WPP's performance ranked first among the peer group companies. The Group chief executive participated in this specific performance period, and will participate in the 1994-96 period, but not in subsequent periods. Contingent grants of performance shares for the 1994-96 and 1995-97 periods range from 25% to 50% of base salary for all participants and for the 1996-98 period, they range from 25% to 60% of base salary.

Operating companies

Senior executives of most Group operating companies, including J. Walter Thompson Company and Ogilvy & Mather Worldwide, participate in long-term incentive plans, which provide rewards in cash and restricted WPP stock for the achievement of three-year financial performance targets which are agreed with WPP each year. These plans are currently operating on a rolling three-year basis over the 1994-96, 1995-97 and 1996-98 performance periods. In addition, an award became payable in March 1996 under 1993-95 long-term incentive plans established for J. Walter Thompson Company, Ogilvy & Mather Worldwide and Research International. The value of payments earned by executives over each performance period is based on the achievement of targeted improvements in each of the following financial and operating performance criteria:

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

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

Depending on the plan, the stock portion of each payment ranges from 25% to 33%, and this is being increased to 50% over time. Restrictions on the sale of this stock are lifted after one year in respect of 50% of the stock portion and two years for the balance, so long as the executive remains employed in the Group.

At the beginning of each three-year period, all participants in an operating company long-term incentive plan may (other than in respect of Ogilvy & Mather Worldwide where it is mandatory) also elect to receive a WPP stock option grant, as a substitute for up to 25% of their long-term incentive opportunity. To date, approximately two-thirds of all long-term incentive participants throughout the Group have elected to take a portion of their long-term incentive opportunity in stock options.

In addition, some executives who participate in an operating company long-term performance plan also receive annual grants of WPP stock options through their membership of the WPP Group '100 Club' or '300 Club'. These 400 key executives are recognised by the Group chief executive as being important to the achievement of WPP's strategic aims. Among the most important of these is the policy to encourage business co-operation across Group 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 (including achieving the employing company's long-term incentive plan targets) are met. Each year the grant value (number of shares times fair market value at the date of grant) of these awards ranges from approximately 10% to 100% of base salary.

Executive Share Option Scheme and All Employee Share Option Scheme

The Company's authority to grant fair market value stock options has expired and it is seeking authority to renew this using a broadly similar stock option plan which, it is presently intended, will continue to be used to make option grants to members of the 100 and 300 Clubs and key employees of the parent company. There is no current intention to make option grants to executive directors and allocations will also currently exclude the Group chief executive.

Additionally, the Company proposes to widen participation in stock options by introducing a further plan under which options would be granted on an 'all-employee' basis, so as to better develop an ownership culture and commitment to the Group by employees generally.

Further details of both new plans which have been drafted with a view to complying with current best practice, are contained in the Notice of the Annual General Meeting.

In addition, in furtherance of an ownership culture throughout the Group, the Company will introduce during 1996 stock ownership guides for participants in executive stock programmes.

Retirement benefits

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

In the two markets where the Group employs the largest number of people, the United States and the United Kingdom, defined contribution benefits have become increasingly prevalent among private pension plans. This trend is consistent with the Group's policy of providing competitive retirement benefits wherever possible, on a defined contribution basis.
At the present time, however, the Group still maintains two defined benefit plans in the US and three defined benefit plans in the UK. In each case, these pension plans are provided for the benefit of the employees of specific operating companies, and in the case of the UK plans, are closed to new entrants. All Company pension coverage for the parent company's executive directors, including the Group chief executive and other parent company employees is on a defined contribution basis and neither annual nor long-term incentive payments are pensionable under any such Company retirement plan. Details of pension contributions for the year under review in respect of executive directors are set out on page 40.

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 below and on pages 48 and 49. Whilst the Company complies with the provisions of the Greenbury report in all other possible respects, the Compensation committee considers (Greenbury acknowledging the discretion to consider special circumstances) that notice periods of two to three years are currently reasonable and proper in the interests of the Company and its operating companies. In coming to this view the committee has taken into account prevailing market conditions and practices among substantial multi-agency holding companies and multinational single agency advertising and marketing services companies.

In the case of the parent company, the Compensation committee considers that there are two special circumstances relating to executive directors. The notice period applicable to the Group chief executive, details of which were described in a Circular sent to share owners on 2 June 1995, being part of the arrangements approved by share owners on 26 June 1995 is for a fixed term of three years from 1 September 1994, renewable for a term of three years on or before the first and each subsequent anniversary. The arrangements relating to the Group chief executive were renewed in September 1995. The notice period applicable to the Group finance director is currently on a rolling three-year basis, having been reduced from a rolling five-year basis under a new contract of service dated 1 June 1993. When the new contract was entered into in 1993, it complied with the Cadbury Committee's Code of Best Practice and the committee do not feel it is advisable to further reduce the notice period at this time. In addition there are several other cases at the operating company level where contracts with notice periods in excess of one year have been entered into.

Compensation committee report

Directors' service contracts

The Group chief executive: Mr M S Sorrell

The services of the Group chief executive, Mr M S Sorrell, are currently secured under a number of agreements, all of which are dated 17 August 1995, and details of which were contained in a circular sent to share owners on 2 June 1995. Share owners approved the Capital Investment Plan (the 'CIP') referred to below, on 26 June 1995.

JMS Financial Services Limited ('JMS') continues to provide Mr Sorrell's services to the Group outside the USA and in addition Mr Sorrell is directly employed by WPP Group USA, Inc. relating to his activities in the USA. The term of these arrangements is referred to on page 47. Taken together, the agreement with JMS ('the UK Agreement') and the agreement with Mr Sorrell directly ('the US Agreement') provide for annual fees and salary of approximately £730,000 ($1,150,000) and further provide for annual pension premiums of approximately £318,000 ($500,000).

The arrangements provide for short-term incentive (annual bonus) and long-term incentive entitlements in line with those applicable to other senior executives throughout the Group. Under the UK and US Agreement in respect of the year under review, payments relating to the short-term incentive arrangements were made totalling £706,000 representing 96.67% of the base fee and salary payable in respect of 1995. A payment of £31,000 was also paid in August 1995, but in respect of 1994, being the final adjustment for the short-term incentive entitlement for that year, following the approval of the new arrangements in June 1995.

JMS participated in the long-term WPP Performance Share Plan in respect of the performance period 1 January 1993 to 31 December 1995 and participates in the 1994-96 period although it is currently intended that JMS will not (and neither will Mr Sorrell) participate under that Plan in subsequent periods. In respect of the period to 31 December 1995 and pursuant to the terms of the Plan, JMS became entitled to the value of 535,043 ordinary shares at a price of 164p per share. At the request of JMS, the Compensation committee agreed to vest in JMS 535,043 ordinary shares which were made available from the ESOP and which have been retained, rather than paying the cash value of such shares, namely £877,471.

Under the new arrangements, JMS is also entitled to additional fee rights ('phantom options') which are linked to the WPP share price from the date on which they were granted. Rights were granted in relation to 1993 for 2,196,190 ordinary shares at an exercise price of 52.5p, and in relation to 1994 for 577,391 ordinary shares at an exercise price of 115p per share. In April 1996, the rights in relation to the 2,196,190 ordinary shares referred to above vested in JMS, but as at 5 May 1996 JMS has not yet exercised its right. All rights relating to the phantom options are exercisable between three and ten years from the date of grant. No further phantom option grants in respect of periods after 1994 have been granted to JMS or to Mr Sorrell.

The Company and JMS entered into an agreement also on the 17 August 1995, being an agreement establishing a Notional Share Award Plan ('the Notional Award Plan') in order to compensate JMS for agreeing not to participate in future performance periods under the long-term performance share plan referred to on page 46 and not participating in further phantom option grants other than those referred to above. Under the Notional Award Plan, JMS was granted an award in respect of up to 1,754,520 Notional Shares with a contingent right to payment based on terms, conditions and performance criteria which correspond with those of the CIP referred to below. The principal difference in the performance criteria between the Notional Award Plan and the CIP is that under the former, 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 and the remaining target prices of 265p and 304p being identical under the two plans.

The Company, Mr Sorrell and the Trustees to the CIP, namely Midland Bank Trustee (Jersey) Limited, entered into a Deed also on 17 August 1995 to constitute the CIP for the benefit of Mr Sorrell.

The CIP was specifically designed, with the assistance of independent executive remuneration consultants, to enable the Company to provide Mr Sorrell with a long-term capital incentive over a five-year period with effect from 4 September 1994, as well as tying Mr Sorrell into the Group by requiring him to make a significant investment in the Company's ordinary share capital.

The CIP required Mr Sorrell to invest approximately £2 million in order to acquire 1,129,305 ordinary shares which are to be retained until 4 September 1996, and and a further 747,252 ordinary shares which are to be retained until the end of the term of the CIP, namely 4 September 1999. Dependent upon certain criteria being achieved during the period until 4 September 1999, which will result in substantially increased share owner value, Mr Sorrell will become entitled to certain Performance Shares (as defined in the CIP), all of which have to be retained until that later date. 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 the ESOP at a total cost of approximately £5.5 million and to the extent not utilised for the purposes of the CIP will be available for use in the ESOP for other purposes.

Directors' service contracts

The Group chief executive: Mr M S Sorrell continued

Mr Sorrell will only become entitled to have the Performance Shares under the CIP vested in him, subject to the retention provisions referred to above, upon the achievement of specific performance conditions, namely:

- if the WPP share price achieves certain levels for 60 consecutive trading days by 4 September 1999. These levels, each of which relates to one equal tranche of 1,172,848 shares, are 198p per share, 230p per share, 265p per share and 304p per share,

and in addition

- if the WPP share price (measured as an average over the same 60-day period) also has outperformed the FTSE 100 Index from 4 September 1994 until the achievement of the relevant price level (measured as an average over the same 60-day period),

and also further

- the Earnings Per Share ('EPS') of the Company for the last financial year of the Company before the two conditions referred to above are satisfied, must have exceeded 5.75p (being the average EPS of the Company for 1993 and 1994) by an amount which expressed as a percentage, is equal to or greater than the increase, also expressed as a percentage, in the Retail Price Index plus 1% per annum compound measured from June 1994 to the last month in such complete financial year.

As at 5 May 1996, the criteria referred to above (and particularly the achievement over the relevant 60-day period of the first share price level of 198p per share) had not been met and therefore Mr Sorrell had not at that date become entitled to any of the Performance Shares.

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.

As noted on page 40, as part of the new arrangements, the Company also agreed it would make a special payment to JMS/Mr Sorrell of some £900,000 in full settlement of contractual entitlements of both Mr Sorrell and JMS under the previous services agreement, and also in further consideration of the Company receiving the benefit of stronger and worldwide restrictive covenants, both from Mr Sorrell and JMS. This amount (which has not yet been paid), was agreed on the basis that it would be utilised by Mr Sorrell for the acquisition of the 747,252 ordinary shares referred to on page 48, being a part of the investment shares held under the CIP. Such shares are currently held by the trustees in their capacity as trustees for the ESOP as part of the arrangements relating to the CIP.

Other executive directors

Mr R E Lerwill, the Group finance director is employed under the service contract dated 1 June 1993, referred to on page 47. Mr B J Brooks, the Group human resources director is employed under a service contract dated 1 June 1993 with a 12-month rolling notice period and Mr G C Sampson, the director responsible for the Group's manufacturing activities is employed subject to a six-month notice period.

The Chairman

The Chairman, Mr G K G Stevens is subject to a contract under which the Company is required to give 12 months' notice of termination.

Compensation of 'executive officers'

The following tables set forth compensation details for the Group chief executive and each of the other four most highly compensated executive officers in the Group as at 31 December 1995 (the 'executive officers'). As used in this statement, the 'executive officers' are deemed to include executive directors of the Company, or an executive who currently serves as the chief executive officer of one of the Group's major operating companies.

This information covers compensation for services rendered in all capacities and paid in each of the two calendar years ended 31 December 1995. Incentive compensation paid in 1996 for performance in 1995 and previous years, is not included in these tables, consistent with US reporting requirements. All compensation in these tables is in US dollars in order to facilitate comparisons with the Group's principal competitors for executive talent.

1995 executive remuneration

Name and principal position		Year	Salary $000	Bonus (1) $000	Other annual compensation (2) $000	Share options SARs and phantom shares (3) Number	Restricted shares Number	All other compensation (excluding the value of LTIP)(4) $000
M S Sorrell	Group chief executive,	1995	1,152	956	25 (2)	-	-	502
	WPP Group	1994	1,034	587	17	577,391	-	1,673 (6)
C Beers	Chairman/Chief executive officer, Ogilvy & Mather	1995	1,000	488	114	617,169	44,967	-
	Worldwide	1994	1,000	475	114	199,580	-	-
B Manning	Chairman/Chief executive officer, J. Walter	1995	990	-	-	-	-	1,108
	Thompson Company	1994	990	-	24	-	-	1,108 (5)
R E Lerwill	Group finance director,	1995	355	159	25	208,334	-	134
	WPP Group	1994	345	121	23	195,652	-	131
P Barnard	Chief executive officer,	1995	316	158	9	129,870	19,824	119
	Kantar Group	1994	306	153	9	123,950	-	117

Notes

1 Represents short-term incentive awards paid during calendar years 1995 and 1994 in respect of the prior year's incentive plans. So far as Mr Sorrell is concerned in respect of 1994 also includes a final adjustment of $47,501 paid in August 1995.

2 Includes the value of company cars, club memberships, executive health benefits and supplemental executive life insurance, as well as the economic imputed value of an interest free loan from the trustees of the WPP Group plc Share Purchase Scheme to Mr R E Lerwill, and an interest free loan to Ms C Beers.

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

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

5 Amounts of $1 million were accrued for Mr B Manning in each year (1994 and 1995) under an individual incentive compensation arrangement established in 1987.

6 Pursuant to the agreements dated 17 August 1995 referred to on page 48 this amount comprises pension contributions of $174,000 and the payment of $1,420,000 (£900,000) referred to on page 49. It also includes the sum of $79,000 being a contribution to costs, as referred to in the Circular sent to share owners on 2 June 1995.

7 For the purpose of the above table, sterling amounts have been translated into US dollars at the rate of $1.5782 to £1 (1994: $1.5323 to £1).

Option grants made in 1995

	Stock options, granted (1) (number of shares)	% of total options granted by Company in 1995	Exercise price (p per share)	Expiry date (2)	Potential realisable value at assumed annual rates of stock price appreciation for option term (3) 0% $	5% $	10% $
M S Sorrell (4)	-	-	-	-	-	-	-
C Beers	136,505	1.15	108p	April 2005	-	146,494	370,543
	480,664	4.03	154p	Sept 2005	-	735,826	1,858,530
B Manning	-	-	-	-	-	-	-
R E Lerwill	166,667	1.39	108p	April 2005	-	178,863	452,418
	41,667	0.34	108p	April 2002	-	28,933	67,074
P Barnard	129,870	1.09	154p	Sept 2005	-	198,812	502,154

Notes

1 Stock options are granted to Mr R E Lerwill under a parent company programme of annual grants.
Stock options granted to Ms C Beers and Mr P Barnard are granted under the WPP 100 Club stock option grant programme. Mr B Manning did not receive a grant in 1995 as he is entitled to other bonus compensation covering the same period of time under his contractual arrangement.

2 With the exception of the 41,667 options granted to Mr R E Lerwill referred to in the above table, all options granted to executives in this table are exercisable three years from the grant date and expire ten years from the grant date.

3 WPP stock are quoted in pounds sterling, and the potential realisable value has been translated into US dollars using an exchange rate of $1.5782 to £1.

4 Mr M S Sorrell did not participate in any stock option award in 1995. Particulars of the CIP and Notional Award Plan in which he did participate are set out on pages 48 and 49.

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	Value realised	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 ($) (1): Exercisable	Unexercisable
M S Sorrell	-	-	-	2,964,057	-	4,646,308
C Beers	-	-	-	1,316,749	-	1,218,086
B Manning	-	-	-	500,000	-	879,847
R E Lerwill	-	-	145,631	1,261,129	-	1,843,732
P Barnard	-	-	-	369,957	-	311,999

Note

1 Value calculated by subtracting the exercise price from the fair market value of the Group's ordinary shares on 31 December 1995. This was 164p. The sterling value has been translated into US dollars using an exchange rate of $1.5782 to £1.

Long-term incentive plan awards made in 1995

	Number of units or shares	Performance period	Threshold	Target	Maximum
M S Sorrell (4)	6,445,912	4 September 1994 - 4 September 1999	n/a	n/a	n/a
C Beers	3,563 (2)	1 January 1995 - 31 December 1997	$0	$353,300	$534,450
B Manning	n/a	n/a	n/a	n/a	n/a
R E Lerwill	69,140 (1)	1 January 1995 - 31 December 1997	n/a	n/a	n/a
P Barnard	1,125 (3)	1 January 1995 - 31 December 1997	$0	$177,547	$266,322

Notes

1 Each unit is analogous to an ordinary share of WPP Group plc, granted under the WPP Performance Share Plan (previously named The Performance Unit Plan) for senior executives of the parent company. Shares normally vest under this Plan three years from the date of grant on the basis of total share owner return relative to seven other major publicly traded advertising companies. However, in relation to the 1995-1997 performance period the award was made on the basis of common share equity market value relative to the same seven companies. The number of shares which vest between the threshold and maximum performance levels is pro rated on the basis of performance relative to these levels.

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

3 Units granted under the Kantar long-term incentive plan which are valued on the basis of average operating profit and operating margin over a three-year period, relative to targets established with WPP.

4 Represents the maximum number of shares (which as noted on page 48 have already been acquired) which could vest under the Capital Investment Plan and the Notional Award Plan summarised on pages 48 and 49, assuming that all of the criteria specified in those plans are met prior to 4 September 1999.

5 For the purposes of the above table, figures have been translated into dollars at the rate $1.5782 to £1.

The table below compares the return to investors in WPP stock with the average return in the Company's peer group, the UK FTSE 100 Index and the US S&P 500 Index, over a five-year period, with all income re-invested.

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

Policy on external appointments

The Company recognises that its executive directors and senior executives from time to time may be invited to become non-executive directors of other companies and that exposure to such non-executive duties can broaden experience and knowledge, which will benefit the Company. Consequently, 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, they are allowed to accept non-executive appointments, as long as these are not with competing companies and are not likely to lead to conflicts of interest. 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 with any Group company are being considered.

Employee consultation and involvement

The Group places great importance on the contributions made and to be 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 as employees and as employee share owners and also on developments within the Group.

This is achieved by formal and informal meetings at the individual company level, by distribution of the Annual Report and Accounts, by a regular newsletter throughout the Group and by the circulation, as appropriate, of explanatory booklets in relation to stock ownership and other compensation plans.

Senior employees of the Group are eligible to receive stock option grants. As at 5 May 1996, options have been granted to a total of 736 (May 1995: 662) employees over 28,608,096 (May 1995: 23,161,609) ordinary shares of the Company.

Employees own approximately 8% (1994: 7%) of the issued share capital of the Company.

Remuneration policy for non-executive directors

The 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 programmes or in any of the Group's stock option plans.

Under the provisions of the Company's Articles of Association, the non-executive directors retire by rotation.

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

16 May 1996

Financial review

Summary of 1995 results

Your Company's results in its tenth year represent record profits, continuing the trend of significant improvement registered in 1994, 1993 and 1992. This improved performance has been reflected in appreciating share owner value with the company being the best performing share among major quoted advertising and marketing services groups on both sides of the Atlantic for the last four years.

Turnover was up 9% to £6.6 billion, revenues up 9% to £1.6 billion (8% on a constant currency and like-for-like basis), and gross profit up 10.3% to £1.3 billion. Operating profit grew from £112.1 million to £139.2 million, up 24%; operating margins improved from 7.9% in 1994 to 9.0%, beating our financial objective of increasing operating margins by 1% a year up to a level of 10% by 1996; and operating costs rose by 8.9%. The Group's staff cost to revenue ratio fell to 51.4% from 51.6%. Operating margins before short- and long-term incentive and severance payments rose to 12.1% from 10.4%. 1996 will be the second year of significant payments to some of our key people under the long-term incentive plans established in 1992, which are based on the worldwide performance of the operating companies in which they work and are paid partly in cash and 25% to 50% in restricted WPP ordinary shares.

As the Group's staff cost to revenue ratio has continued to improve in 1993, 1994 and 1995, the proportion of total staff costs which are variable has also been improving, from 4.5% in 1993, to 5.6% in 1994 and 6.9% in 1995. As variable staff costs, that is incentive compensation, have been increasing at a rate generally in line with increases in the Group's operating profits, the level of variable staff costs as a proportion of revenues has increased, from 2.4% in 1993, to 2.9% in 1994 and 3.5% in 1995. This increase in the proportion of total staff costs which are variable, has resulted in a continuing improvement in the Group's ratio of fixed staff costs to revenues from 50.7% in 1993 to 48.7% in 1994 and to 47.9% in 1995. As a result enhanced flexibility has been introduced into the cost structure.

Net interest payable fell to £25.5 million from £26.8 million, reflecting improved profitability and cash flow, offset by an increase in US interest rates. The Group continues to be substantially protected against a significant rise in US interest rates by interest rate swaps and caps at US dollar LIBOR of 6% or below (excluding margin and hedging costs).

Pre-tax profits rose 33% to £113.7 million from £85.3 million and pre-tax margins rose to 7.3% from 6.0%, which reflected improved profitability and cash flow and a reduction in interest costs.

The Group tax rate on profits was 38%, an improvement on the previous year's 42%. This reflects the positive impact of the Group's tax restructuring. Over the last three years the Group has reduced its tax rate on profits by almost a fifth from 47% in 1992 to its current level.

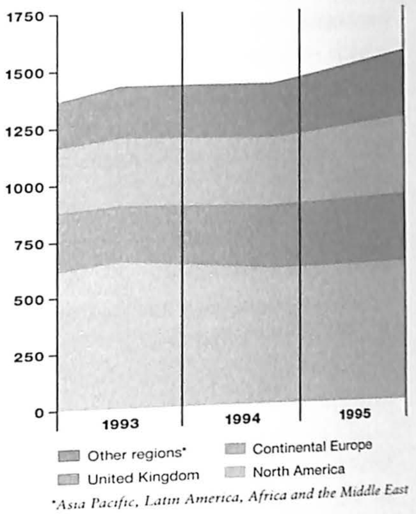
Fully diluted earnings per share rose 40% to 9.1p from 6.5p, well above the Group's financial objective of increasing earnings per share by 20% per annum. Fully diluted earnings per share have almost trebled over the last three years.

The Board recommends an increase of 15% in the final dividend to 0.865p net per share, making a total of 1.31p net per share for 1995, also a 15% increase over 1994.

Geographical and sector trends

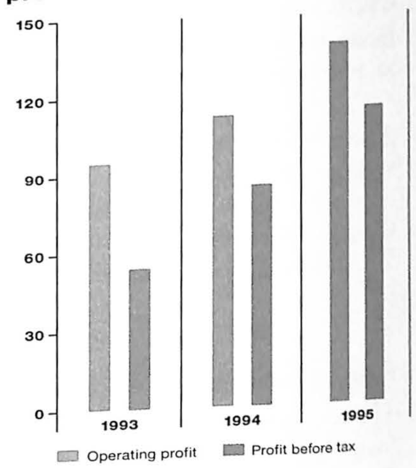
In 1995 the worldwide marketing services industry continued the improvement in 1994, 1993 and 1992. Further strength in the United States was reinforced by increased activity in Europe. The United Kingdom again ranked as an 'emerging' market in the first half of the year, although business slowed in the second half. Continental Europe, particularly France, Germany and Italy, but not Spain, hardened. Growth in the faster growing markets of Asia Pacific and Latin America continued despite Venezuelan and Mexican hiccups. As in 1994, political progress has improved the economic prospects in Africa and the Middle East. For opposite reasons the prospects of Central and Eastern Europe remained uncertain as did Canada. In 1995, the Group held its market share in the United States, and gained share in the United Kingdom, Continental Europe, Asia Pacific and Latin America.

Revenue by geographical region (£m)

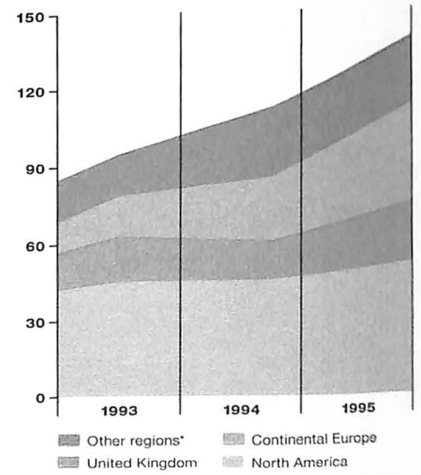


*Asia Pacific, Latin America, Africa and the Middle East

Operating profit/ profit before tax (£m)



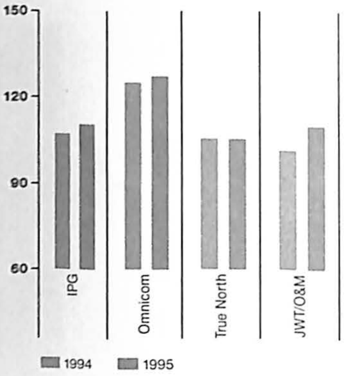
Operating profit by geographical region (£m)



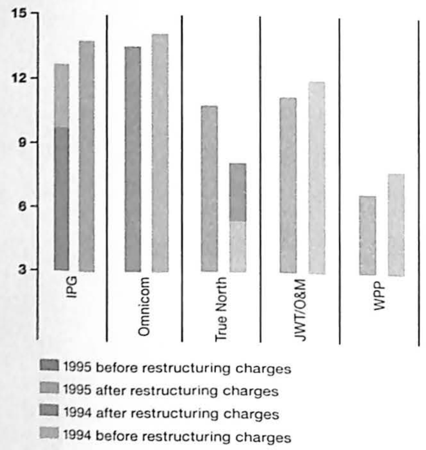
*Asia Pacific, Latin America, Africa and the Middle East

Key competitive ratios:

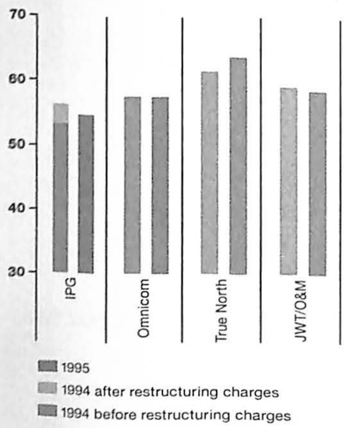
Revenue per head ($000)



Operating margins (%)



Staff cost to revenue ratio (%)



Source: Data from the above graphs 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) has been reclassified to non-operating income and staff costs as appropriate, where this information is publicly available. IPG, Omnicom, True North and the WPP consolidated figures include results from non-advertising businesses and parent company costs, whereas these are not included in JWT and O&M figures.

There were also continued signs of a shift in client spending from so-called below-the-line activities such as trade and consumer promotion to above-the-line media advertising. Some major advertising spenders are experimenting with dropping coupon activity, concentrating on everyday low pricing and beefing up network television spending. This may well be due to the increase in the level of economic activity in the mature markets, and increasing focus by clients on brand differentiation and revenue growth as cost reductions become more difficult to achieve and competition intensifies.

Client relationships

The Group had 20,412 people in 786 offices in 84 countries at the year-end.

The Group services over 300 of the Fortune 500 companies and approximately 330 national or multinational clients in three or more sectors. More than 60 clients are serviced in all four sectors. The Group also works with well over 100 clients in six or more countries. These statistics reflect the increasing opportunities for developing client relationships between sectors nationally, internationally and by function. The Group estimates that an increasing proportion, over 20%, of new assignments in the year were generated through the joint development of opportunities by two or more Group companies.

Competitive performance

Continued progress has been made over the last four years during which pre-tax profits have increased over thirteen times from £8 million in 1992, to £54 million in 1993, £85 million in 1994 and to £114 million in 1995. Over the same period operating margins have increased by almost 3.4% from 5.6% to 9.0%, and average net debt has fallen by over 50% from £437 million in 1992, to £361 million in 1993, £268 million in 1994, and £214 million in 1995.

However, there is still a significant profit opportunity in matching operating margins of the best-performing competition. Best-performing competitive *parent companies* like The Interpublic Group of Companies ('IPG') and Omnicom Group ('Omnicom') achieved operating margins of approximately 13% to 14% in 1995 excluding charges for goodwill amortisation, whilst their best-performing *individual agencies* such as McCann-Erickson Worldwide and BBDO Worldwide are estimated to achieve operating margins of 16% to 17%. This compares to a WPP parent company margin of 9%, and an aggregate agency margin for Ogilvy & Mather Worldwide and J. Walter Thompson Company of 12.9%.

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 activities now that they have broken even before short-term excess property costs.

The results of our research into comparative benchmarking data on our market research and specialist communications operations confirm that our businesses in these areas are reasonably competitive, although there are opportunities to improve performance to the best-performing competitors.

Achievement of 'best practice' competitive operating margins in just our advertising and public relations businesses at current revenue levels would generate another £20 million to £30 million of operating profit.

Property costs

Surplus property costs also add to the task of achieving the same level of operating performance as our best performing competitors. Substantial progress has been made over the last four years in reducing the level of surplus property. Over 485,000 sq ft with a cash cost of £12 million ($18 million) per annum has been sublet or absorbed. However, there is still 170,000 sq ft, with a cash cost of £3 million ($4.5 million) per annum, surplus to requirements. Property initiatives planned for 1996 and 1997 will significantly reduce this surplus as major leases come up for renewal, particularly in the United States. We believe that rental costs to revenue ratios at competitive parent companies like IPG and Omnicom are in the 6.5% to 8.0% range. The Group is at 7.6% and your Board believes a 1% improvement, equivalent to approximately £15 million of operating profit, is achievable which would, of course, form part of any general operating profit improvement.

Indebtedness

At 31 December 1995, the Group was cash positive with net cash of £71 million compared with £38 million of net debt at 31 December 1994 (1994: £32 million on the basis of 1995 year-end exchange rates). This was primarily due to the traditionally strong fourth quarter and management efforts to improve working capital.

Net debt averaged £214 million in 1995 against £268 million in 1994 (1994: £260 million at 1995 exchange rates). Cash flow in the second half of the year was better than anticipated with average net debt at £212 million compared with £217 million in the first half. These net debt figures compare with an equity market capitalisation at 31 December 1995 of approximately £1.2 billion (up over 50% on last year) giving a total enterprise value of approximately £1.4 billion.

In the first four months of 1996 net debt averaged £166 million versus £211 million last year (1995: £220 million at 1996 exchange rates).

Principally as a result of this improved cash flow, the Company was able to renegotiate its banking arrangements earlier than the previous maturity date of June 1997. Under the new five-year arrangements, the Group's previous facilities of $800 million were split in two – an amortising term facility of $400 million and a revolving facility of $400 million. Assuming performance targets and term facility repayments are met, interest costs over the next five years will 'ratchet' down giving an average 1% margin and a saving of £2 million to £3 million per annum at current interest rates compared to the previous facility.

At 31 December 1995 the balance sheet showed net liabilities of £58 million compared with £106 million in 1994 (1994: £111 million on the basis of 1995 year-end exchange rates).

Cash flow

Overall, cash flow was better than anticipated as a result of improved profitability and management of working capital. In 1995, earnings before interest and taxes were £139 million, capital expenditure £35 million, depreciation £26 million, cash earnout/ acquisition payments £12 million, tax paid £29 million and net interest paid £28 million. Free cash flow available for debt repayment, acquisitions, excess property payments and dividends was, therefore, £61 million.

For financial control purposes, the Group monitors the effectiveness of its cash management by reference to net cash/debt. Accordingly, the revisions to FRS 1 'cash flow statements' proposed by FRED 10 are welcomed, and a reconciliation of movements in net cash/debt is included at the foot of the consolidated cash flow statement.

1995 was the final year of significant earnout payments. £15 million was paid of which £12 million was in cash and £3 million in shares.

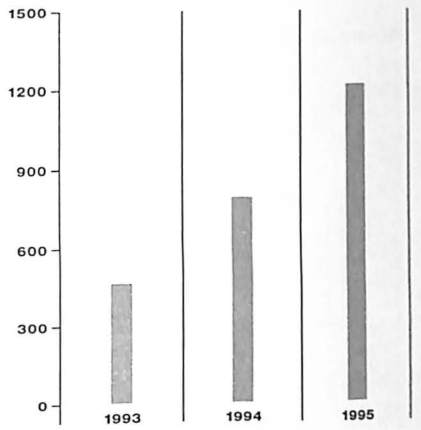
Assuming modest revenue growth and that operating margins will grow in line with the Company's objectives of 1% per annum, 1996 will see a further increase in free cash flow and should generate liquidity after tax available for debt repayments and dividend payments of over £50 million. This would mean that the current average level of indebtedness could be reduced to zero in approximately 3-4 years. In order to enhance share owner value as liquidity improves, your Board is giving consideration to the relative merits of either increasing the dividend payout ratio or share buy-backs.

Treasury policy and activities

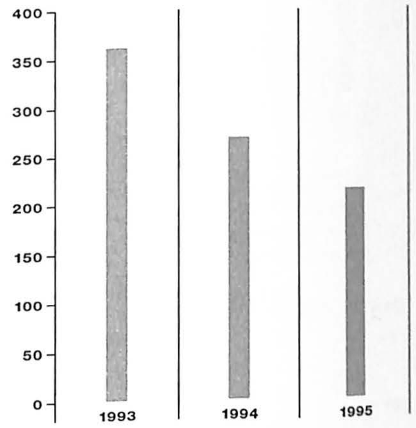
A significant proportion of the Group's revenues, operating profits and cash flows (approximately 80% to 90%) are in currencies other than sterling. As there are few instances of significant cross-border trading, exposures to foreign exchange fluctuations are limited. When significant exposures do arise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

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

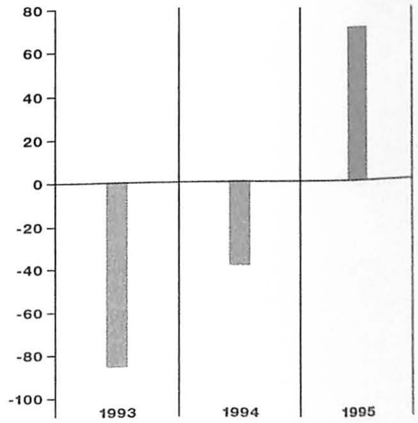
Year-end market capitalisation (£m)



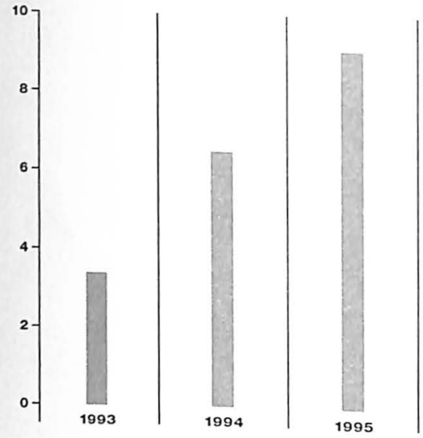
Average net debt (£m)



Net cash/(debt) at year end (£m)



Fully diluted earnings per share (p)



predominantly dollar denominated debt is serviced primarily by dollar earnings in the US. The Group analyses and reports its performance on a constant currency basis wherever relevant. No hedging is undertaken in relation to the accounting translation of overseas balance sheets. This results in a fluctuation in the sterling value of share owners' funds due to movements in exchange rates.

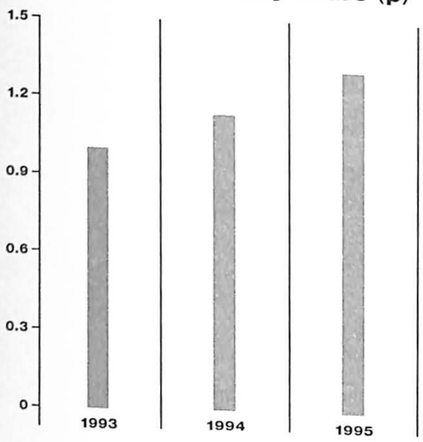
The Group's interest rate management policy is to ensure that a significant proportion of its borrowings either are on a fixed rate basis or are hedged against significant increases in medium-term interest rates. The majority of the Group's floating rate borrowings are hedged at US dollar LIBOR of 6% and below (excluding margin and hedging costs), with maturities extending into January 2001.

1996 outlook

As usual, our budgets, this time for 1996, have been prepared on a conservative basis. They predict year-on-year revenue increases of almost 4% over 1995. This compares with a budgeted growth of 3.5% in 1995 against an actual outcome of 8%. Results for the first four months show a like-for-like increase of over 10%.

There are still economic uncertainties in the United States, United Kingdom and Continental Europe, as a result of historically high levels of unemployment, and the consequent lack of confidence and fear of further unemployment amongst both consumers and managers. As a result, in the medium-term, like-for-like revenue gains are likely to be in the mid-single digit range, and in these circumstances the Company will continue to concentrate on improving the balance of its resources and the flexibility of its costs particularly in staff and property areas. To achieve this, short-term and long-term incentive plan objectives have been based on improving absolute levels of profit, operating margins, staff cost to revenue ratios, incremental revenue conversion, revenue growth and Group co-operation. As our margins improve and come closer to matching the best performing competition, increasing emphasis will be placed on revenue generation through these incentive objectives.

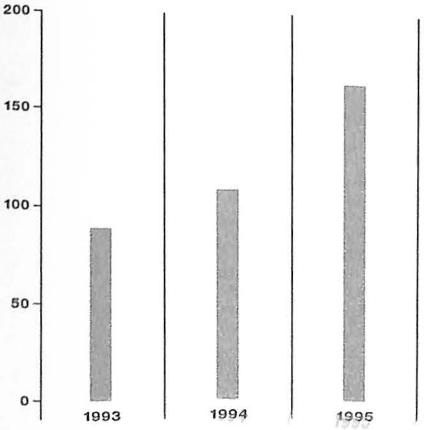
Dividends per ordinary share (p)



As a result, the Group will increasingly focus on improving its competitive position in the faster growing segments of the marketing services industry. Geographically, Asia Pacific, Latin America, Africa and the Middle East now account for 19% of the Group's revenue as opposed to 12% five years ago. These markets are forecast to continue to grow at significantly faster rates than those of North America and Western Europe. WPP, according to the Advertising Age Agency Report, ranks in the top three in all of the ten fastest growing markets of the world and first in four of them. Functionally, the Group is well positioned in areas such as direct marketing and interactive communications, healthcare marketing and market research where growth is strong relative to the industry as a whole.

To aid the achievement of these objectives, and 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, information technology, procurement and practice development. Six practice areas which span all our brands have been developed initially in media buying and research, healthcare, privatisation, new technologies, new faster growing markets and internal communications. The objectives 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 programmes have all been implemented and developed in 1995.

Share price at year end (p)



1996, WPP's eleventh year, should be an excellent year. The United States, the world's biggest advertising and marketing services market will be buoyed by the coincidence of the American Presidential Elections and the 100th Anniversary Olympic Games at Atlanta. Incumbent politicians (and advertising agencies advising them) facing electorates will encourage fiscal and monetary policies that stimulate rapid economic growth and the 'feel-good factor'. The risk remains that these policies will be excessively inflationary resulting in the post-election contractions in key economies. Hence the need for our controlled growth and flexible cost structures.

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

We have audited the financial statements set out on pages 60 to 84, 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 60 and 61. We have also examined the disclosures relating to the emoluments, share options and long-term incentive scheme interests of the directors which form part of the report to share owners by the Compensation committee on pages 40 and 41.

Respective responsibilities of directors and auditors

As described on page 39 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 1995 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
16 May 1996

Report of the Auditors to WPP Group plc on corporate governance matters:
In addition to our audit of the financial statements we have reviewed the directors' statement on page 38 concerning the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code which is not disclosed.

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

Opinion
With respect to the directors' statements on internal financial control and going concern on pages 38 and 39, in our opinion the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the relevant guidance for directors) and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement on page 38 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review.

Arthur Andersen
Chartered Accountants
London
16 May 1996

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 (except as disclosed in accounting policy 1), 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.

The presentation of the Group and Company balance sheets has been modified to bring them into line with the requirements of UITF Abstract 13 'Accounting for ESOP Trusts', which clarifies the accounting treatment to be applied to assets and liabilities in Employee Share Ownership Plans (ESOPs). Comparative figures have been restated as appropriate although there has been no change to reported income or net liabilities.

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

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

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

6 Investments

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 1995

Notes		1995 £m	1994 £m	1995 $m	1994 $m
1	**Turnover (gross billings)**	**6,553.1**	6,013.7	**10,342.1**	9,214.8
	Cost of sales	**(4,998.2)**	(4,586.8)	**(7,888.2)**	(7,028.4)
1	**Revenue**	**1,554.9**	1,426.9	**2,453.9**	2,186.4
	Direct costs	**(226.9)**	(223.0)	**(358.1)**	(341.7)
	Gross profit	**1,328.0**	1,203.9	**2,095.8**	1,844.7
2	Operating expenses (net)	**(1,188.8)**	(1,091.8)	**(1,876.1)**	(1,672.9)
1	**Operating profit**	**139.2**	112.1	**219.7**	171.8
	Interest receivable	**10.8**	8.8	**17.0**	13.5
3	Interest payable and similar charges	**(36.3)**	(35.6)	**(57.3)**	(54.5)
2	**Profit on ordinary activities before taxation**	**113.7**	85.3	**179.4**	130.8
6	Tax on profit on ordinary activities	**(43.2)**	(35.8)	**(68.1)**	(54.9)
	Profit on ordinary activities after taxation	**70.5**	49.5	**111.3**	75.9
	Minority interests	**(1.8)**	(2.1)	**(2.9)**	(3.2)
	Profit for the financial year	**68.7**	47.4	**108.4**	72.7
7	Preference dividends	**-**	(1.1)	**-**	(1.7)
	Profit attributable to ordinary share owners	**68.7**	46.3	**108.4**	71.0
7	Ordinary dividends	**(9.7)**	(8.2)	**(15.3)**	(12.6)
	Retained profit for the year	**59.0**	38.1	**93.1**	58.4
8	**Earnings per share (net basis)**				
	Basic earnings per ordinary share	**9.5p**	7.9p	**15.0¢**	12.1¢
	Fully diluted earnings per ordinary share	**9.1p**	6.5p	**14.4¢**	10.0¢
7	**Ordinary dividend per share (net)**				
	Interim dividend	**0.445p**	0.385p	**0.70¢**	0.59¢
	Final dividend	**0.865p**	0.750p	**1.37¢**	1.15¢

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 62 and 63 are also presented expressed in US dollars using the approximate average rate for the year for the profit and loss account (1995: $1.5782=£1, 1994: $1.5323=£1) and the rate in effect on 31 December for the balance sheet (1995: $1.5526=£1, 1994: $1.5645=£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 both years 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 reserves are set out in note 21.

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

Consolidated balance sheet

As at 31 December 1995

Notes		1995 £m	1994 £m	1995 $m	1994 $m
	Fixed assets				
9	Intangible assets	**350.0**	350.0	**543.4**	547.6
10	Tangible assets	**139.2**	129.7	**216.1**	202.9
11	Investments	**35.3**	25.9	**54.8**	40.5
		524.5	505.6	**814.3**	791.0
	Current assets				
12	Stocks and work in progress	**92.5**	103.8	**143.6**	162.4
13	Debtors	**803.4**	673.9	**1,247.4**	1,054.4
14	Debtors within working capital facility:				
	Gross debts	**245.1**	200.6	**380.5**	313.8
	Non-returnable proceeds	**(160.3)**	(112.1)	**(248.9)**	(175.4)
		84.8	88.5	**131.6**	138.4
	Cash at bank and in hand	**376.0**	314.6	**583.8**	492.2
		1,356.7	1,180.8	**2,106.4**	1,847.4
15	**Creditors:** amounts falling due within one year	**(1,521.7)**	(1,327.5)	**(2,362.6)**	(2,076.9)
	Net current liabilities	**(165.0)**	(146.7)	**(256.2)**	(229.5)
	Total assets less current liabilities	**359.5**	358.9	**558.1**	561.5
16	**Creditors:** amounts falling due after more than one year	**(328.7)**	(387.7)	**(510.3)**	(606.6)
17	**Provisions for liabilities and charges**	**(88.8)**	(76.9)	**(137.9)**	(120.3)
	Net liabilities	**(58.0)**	(105.7)	**(90.1)**	(165.4)
	Capital and reserves				
20	Called up share capital	**73.7**	72.6	**114.4**	113.5
21	Share premium account	**409.0**	406.9	**635.0**	636.7
21	Goodwill write-off reserve	**(1,040.2)**	(1,032.9)	**(1,615.0)**	(1,616.0)
21	Other reserves	**97.4**	103.7	**151.2**	162.2
21	Profit and loss account	**397.7**	339.8	**617.5**	531.6
	Share owners' funds	**(62.4)**	(109.9)	**(96.9)**	(172.0)
	Minority interests	**4.4**	4.2	**6.8**	6.6
	Total capital employed	**(58.0)**	(105.7)	**(90.1)**	(165.4)

Signed on behalf of the Board on 16 May 1996:
M S Sorrell
Group chief executive

R E Lerwill
Group finance director

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

Consolidated cash flow statement

For the year ended 31 December 1995

Notes		1995 £m	1994 £m
	Reconciliation of operating profit to net cash inflow from operating activities:		
	Operating profit	**139.2**	112.1
10	Depreciation charge	**26.2**	26.6
	Share of associated undertaking profits before tax	**(14.5)**	(12.3)
19	Decrease in working capital and provisions	**69.7**	28.0
	Loss on sale of tangible fixed assets	**0.8**	0.1
	Net cash inflow from operating activities	**221.4**	154.5
	Returns on investments and servicing of finance		
	Interest paid	**(38.7)**	(38.9)
	Interest received	**10.8**	9.4
	Dividends paid to share owners	**(8.7)**	(8.2)
11	Dividends and other receipts from associated undertakings	**5.0**	4.5
	Dividends paid to minorities	**(1.3)**	(1.5)
	Net cash outflow from returns on investments and servicing of finance	**(32.9)**	(34.7)
	Taxation – United Kingdom and overseas tax paid	**(29.0)**	(22.0)
	Investing activities		
10	Purchase of tangible fixed assets	**(35.0)**	(30.0)
	Acquisition and earnout payments	**(12.5)**	(19.6)
11	Purchase of own shares by ESOP trust	**(6.2)**	-
	Proceeds from sale of tangible fixed assets	**2.1**	1.8
	Net cash outflow from investing activities	**(51.6)**	(47.8)
	Net cash inflow before financing	**107.9**	50.0
	Financing activities		
18	Repayment of bank loans	**(20.6)**	(47.8)
18	Reduction in drawings on bank loans	**(12.1)**	(1.4)
	Financing costs	**(5.8)**	(9.2)
	Net cash outflow from financing activities	**(38.5)**	(58.4)
	Increase/(decrease) in cash and cash equivalents excluding the effect of foreign exchange rate changes	**69.4**	(8.4)
	Effect of foreign exchange rate changes on cash and cash equivalents	**4.3**	(11.0)
19	**Balance of cash and cash equivalents at beginning of year**	**268.5**	287.9
19	**Balance of cash and cash equivalents at end of year**	**342.2**	268.5

For financial control purposes the Group monitors the effectiveness of its cash management by reference to net cash/(debt). The following table provides an analysis of movements in net cash/(debt) during the year.

Notes		1995 £m	1994 £m
19	Net debt at beginning of year	**(38.0)**	(83.7)
	Net cash inflow before financing, as above	**107.9**	50.0
	Effect of foreign exchange rate changes on net cash/(debt)	**2.2**	8.3
	Other movements	**(0.7)**	(12.6)
19	**Net cash/(debt) at end of year**	**71.4**	(38.0)

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

Reconciliation of movements in consolidated share owners' funds

For the year ended 31 December 1995

Notes		1995 £m	1994 £m
	Profit for the financial year	**68.7**	47.4
7	Ordinary and preference dividends payable	**(9.7)**	(9.3)
		59.0	38.1
21	Exchange adjustments on foreign currency net investments	**(5.3)**	26.8
21	Net movement on goodwill write-off reserve	**(7.3)**	(13.8)
20,21	Other movements	**1.1**	0.8
	Net additions to share owners' funds	**47.5**	51.9
	Opening share owners' funds	**(109.9)**	(161.8)
	Closing share owners' funds	**(62.4)**	(109.9)

Consolidated statement of recognised gains and losses

For the year ended 31 December 1995

Notes		1995 £m	1994 £m
	Profit for the financial year	**68.7**	47.4
21	Exchange adjustments on foreign currency net investments	**(5.3)**	26.8
21	Exchange adjustments on conversion of Convertible Cumulative Redeemable Preference shares	**(1.0)**	(23.6)
	Total recognised gains and losses relating to the year	**62.4**	50.6

Notes to the consolidated profit and loss account

1 Segment information

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

Contributions by geographical area were as follows:	Turnover 1995 £m	Turnover 1994 £m	Revenue 1995 £m	Revenue 1994 £m	Operating profit 1995 £m	Operating profit 1994 £m	Non-interest bearing assets/(liabilities) 1995 £m	Non-interest bearing assets/(liabilities) 1994 £m
United Kingdom	**725.2**	718.4	**296.1**	282.1	**22.8**	14.8	**13.7**	24.1
United States	**2,733.3**	2,611.6	**594.8**	576.2	**50.4**	45.2	**(253.7)**	(240.2)
Continental Europe	**1,550.9**	1,347.6	**343.6**	290.9	**39.2**	24.7	**30.5**	36.3
Rest of the World	**1,543.7**	1,336.1	**320.4**	277.7	**26.8**	27.4	**80.1**	112.1
	6,553.1	6,013.7	**1,554.9**	1,426.9	**139.2**	112.1	**(129.4)**	(67.7)
Items not allocated in the above geographic analysis:								
Net cash/(debt)							**71.4**	(38.0)
Net liabilities in the consolidated balance sheet							**(58.0)**	(105.7)

There is no significant cross-border trading.

Contributions by operating sector were as follows:	Turnover 1995 £m	Turnover 1994 £m	Revenue 1995 £m	Revenue 1994 £m	Operating profit/(loss) 1995 £m	Operating profit/(loss) 1994 £m	Non-interest bearing assets/(liabilities) 1995 £m	Non-interest bearing assets/(liabilities) 1994 £m
Media advertising	**5,613.9**	5,137.5	**864.8**	774.4	**98.2**	83.2	**(144.4)**	(97.2)
Market research	**248.5**	226.7	**248.5**	226.7	**18.4**	12.7	**1.6**	12.1
Public relations	**97.8**	96.0	**97.8**	96.0	**(2.3)**	(5.9)	**10.4**	12.0
Specialist communications	**592.9**	553.5	**343.8**	329.8	**24.9**	22.1	**3.0**	5.4
	6,553.1	6,013.7	**1,554.9**	1,426.9	**139.2**	112.1	**(129.4)**	(67.7)
Items not allocated in the above sector analysis:								
Net cash/(debt)							**71.4**	(38.0)
Net liabilities in the consolidated balance sheet							**(58.0)**	(105.7)

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

2 Analysis of cost of sales and operating expenses

Profit on ordinary activities before taxation is stated after charging/(crediting):	**1995 £m**	1994 £m
Depreciation of and amounts written off		
– owned tangible fixed assets	**25.4**	25.7
– assets held under finance leases and hire-purchase contracts	**0.8**	0.9
Operating lease rentals		
– plant and machinery	**17.3**	17.3
– property	**86.0**	90.7
Hire of plant and machinery	**1.9**	1.0
Share of profits of associated undertakings before tax	**(14.5)**	(12.3)
Charges in respect of working capital facilities (note 14)	**10.3**	8.4
Auditors' remuneration		
– audit fees	**1.8**	1.8
– fees in respect of other advisory work	**1.8**	2.6

3 Interest payable and similar charges

	1995 £m	1994 £m
On bank loans, overdrafts and other loans		
– repayable within five years, by instalments	**26.1**	25.4
– repayable within five years, not by instalments	**9.7**	9.7
	35.8	35.1
On all other loans	**0.5**	0.5
	36.3	35.6

4 Directors' emoluments

Directors' emoluments (excluding options exercised) amounted to £4.2 million (1994: £3.5 million), full details of which are disclosed on page 40.

Notes to the consolidated profit and loss account

5 Staff costs

Emoluments of directors and employees during the year amounted to:	1995 £m	1994 £m
Wages and salaries	**569.3**	526.4
Charged under short- and long-term incentive plans	**49.3**	36.0
Social security costs	**66.7**	63.2
Other pension costs	**25.1**	22.7
	710.4	648.3

The average weekly number of people employed by the Group during the year was as follows:	1995 Number	1994 Number
United Kingdom	**3,503**	3,327
United States	**6,164**	6,191
Continental Europe	**3,793**	3,646
Rest of the World	**6,692**	6,034
	20,152	19,198

Long-term incentive plans
To the extent that future obligations under long-term incentive plans are considered to arise as a result of current year activity, a charge has been made to the profit and loss account for the year.

6 Tax on profit on ordinary activities

The tax charge is based on the profit for the year and comprises:	1995 £m	1994 £m
Corporation tax at 33% (1994: 33%)	**-**	0.1
Deferred taxation	**0.8**	3.7
Overseas taxation	**31.9**	25.4
Tax on profits of associate companies	**6.8**	4.3
Advance corporation tax written off	**3.7**	2.3
	43.2	35.8
Effective tax rate on profit before tax	**38%**	42%

The Group tax rate on profits before tax of 38% is lower than the rate for the prior year as a result of improving operating profitability in the United States and the continued reduction in the effective tax rate in Europe.

The Group's effective tax rate is higher than the United Kingdom rate of 33% for the year due to a significant portion of overseas income being subject to higher levels of taxation. In addition, as a result of the Group not having sufficient profits chargeable to tax in the United Kingdom, £3.7 million of advance corporation tax has been written off.

7 Ordinary and preference dividends

Ordinary dividend	1995 Pence per share (net)	1994 Pence per share (net)	1995 £m	1994 £m
Interim dividend paid	**0.445p**	0.385p	**3.3**	2.8
Final dividend proposed	**0.865p**	0.750p	**6.4**	5.4
	1.31p	1.135p	**9.7**	8.2

Preference dividend	1995	1994	1995 £m	1994 £m
1.7¢ (net) Convertible Cumulative Redeemable Preference shares of $0.10 each	**-**	1.10p	**-**	1.1

8 Earnings per ordinary share

a) *Earnings per share*

Basic earnings per share have been calculated using earnings of £68.7 million (1994: £46.3 million) and weighted average shares in issue during the year of 722,550,473 shares (1994: 589,802,460 shares).

Fully diluted earnings per share have been calculated on a weighted average of 756,641,018 shares (1994: 734,748,662 shares). This takes into account the exercise of employee share options where these are expected to dilute earnings.

b) *Earnings per share (nil paid)*

Basic and fully diluted earnings per share on a nil paid basis are as follows:	1995	1994
Basic earnings per share	**10.0p**	8.2p
Fully diluted earnings per share	**9.6p**	6.8p

Earnings per share on a nil paid basis have been calculated by adding back irrecoverable advance corporation tax on ordinary dividends of £3.7 million (1994: £2.1 million) to the Group's earnings of £68.7 million (1994: £46.3 million).

c) At 31 December 1995 there were 736,986,945 (1994: 720,462,433) ordinary shares in issue.

9 Intangible fixed assets

	1995 £m	1994 £m
Corporate brand names	**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 Samuel Montagu.

10 Tangible fixed assets

The movement in the year was as follows:	Land and buildings		Fixtures, fittings and equipment £m	Total £m
Cost:	Freehold £m	Short leasehold £m		
Beginning of year	11.8	98.0	140.9	250.7
Additions	1.0	10.1	23.9	35.0
Disposals	(0.5)	(2.9)	(5.6)	(9.0)
Exchange adjustments	-	3.8	3.7	7.5
End of year	**12.3**	**109.0**	**162.9**	**284.2**
Depreciation:				
Beginning of year	2.6	30.5	87.9	121.0
Charge	0.4	7.0	18.8	26.2
Disposals	(0.3)	(1.9)	(3.9)	(6.1)
Exchange adjustments	-	1.5	2.4	3.9
End of year	**2.7**	**37.1**	**105.2**	**145.0**
Net book value:				
End of year	**9.6**	**71.9**	**57.7**	**139.2**
Beginning of year	9.2	67.5	53.0	129.7

Leased assets (other than leasehold property) included above have a net book value of £1.6 million (1994: £2.0 million).

11 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
Beginning of year	21.7	4.2	-	25.9
Additions	-	6.2	1.3	7.5
Share of profits after tax of associated undertakings	7.7	-	-	7.7
Dividends and other receipts	(5.0)	-	-	(5.0)
Exchange adjustments	(0.8)	-	-	(0.8)
End of year	**23.6**	**10.4**	**1.3**	**35.3**

The Group's principal associated undertakings include:	% owned	Country of incorporation
Spot Thompson S.A.	44	Greece
Hindustan Thompson Associates Limited	49	India
Ogilvy & Mather Rightford Pty	40	South Africa
Mediacenter BV	50	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, full details of which are disclosed in the Compensation committee report on pages 44 to 53.

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 financing costs. Rights to dividends on certain shares held by the plan have been waived by the trustees other than 0.01p per share to ensure that the shares continue to qualify as wider-range investments under the Trustee Investment Act 1961.

The number and market value of the ordinary shares of the Company held by the ESOP at 31 December 1995 was 11,282,693 (1994: 5,469,031) and £18.5million (1994: £6.0 million) respectively.

12 Stocks and work in progress

The following are included in the net book value of stocks and work in progress:	1995 £m	1994 £m
Raw materials and consumables	**0.6**	0.5
Work in progress	**88.5**	99.9
Finished goods and goods for resale	**3.4**	3.4
	92.5	103.8

13 Debtors

The following are included in debtors:	1995 £m	1994 £m
Amounts falling due within one year:		
Trade debtors outside working capital facility	**638.6**	538.5
VAT and sales taxes recoverable	**13.6**	8.3
Corporate income taxes recoverable	**4.1**	4.4
Other debtors	**83.7**	46.0
Prepayments and accrued income	**41.3**	46.2
	781.3	643.4
Amounts falling due after more than one year:		
Other debtors	**17.2**	24.7
Prepayments and accrued income	**4.9**	5.8
	22.1	30.5
Total debtors	**803.4**	673.9

14 Debtors within working capital facility

The following are included in debtors within the Group's working capital facilities:	**1995 £m**	1994 £m
Gross debts	**245.1**	200.6
Non-returnable proceeds	**(160.3)**	(112.1)
	84.8	88.5

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.

15 Creditors: amounts falling due within one year

The following are included in creditors falling due within one year:	**1995 £m**	1994 £m
Bank loans and overdrafts (note 18)	**70.1**	57.1
Unsecured loan notes (note 18)	**1.9**	4.7
Trade creditors	**1,008.7**	861.5
Corporate income taxes payable	**23.5**	24.3
Other taxation and social security	**60.6**	46.9
Dividends proposed	**6.4**	5.5
Other creditors and accruals	**273.8**	286.4
Deferred income	**76.7**	41.1
	1,521.7	1,327.5

Bank loans and overdrafts include £36.3million (1994: £11.0 million) of amounts repayable under the Group's Credit Facility Agreement during 1996 (note 18(2)).

16 Creditors: amounts falling due after more than one year

The following are included in creditors falling due after more than one year:	**1995 £m**	1994 £m
Bank loans	**230.8**	287.2
Unsecured loan notes	**1.8**	3.6
Corporate income taxes payable	**66.7**	58.2
Other creditors and accruals	**29.4**	38.7
	328.7	387.7

Further details of the Group's bank loans and loan notes are included in note 18.

17 Provisions for liabilities and charges

The movement in the year on provisions comprises:	Deferred taxation £m	Property £m	Long-term incentive plans £m	Pension and other £m	Total £m
Beginning of year	7.5	13.2	13.1	43.1	76.9
Charged in profit and loss account	0.8	-	16.2	5.8	22.8
Utilised	-	(6.2)	(7.5)	(0.7)	(14.4)
Transfers	(1.4)	3.2	-	(0.3)	1.5
Exchange adjustments	(0.2)	0.1	-	2.1	2.0
End of year	**6.7**	**10.3**	**21.8**	**50.0**	**88.8**

Deferred tax has been provided to the extent that the directors, on the basis of reasonable assumptions and the intentions of management, have concluded that it is probable that liabilities will crystallise. No provision is made for tax that would arise on the remittance of overseas earnings. There is no material unprovided deferred tax at 31 December 1995.

At 31 December 1995, the provision for deferred taxation comprised the following current timing differences:	**1995 £m**	1994 £m
Accelerated capital allowances	**2.3**	3.0
Interest receivable	**3.6**	2.0
Other	**0.8**	2.5
	6.7	7.5

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

Pension and other provisions arise mainly in the United States and Continental Europe. Unfunded pension costs are provided for in the Group's balance sheet.

Long-term incentive plans are operated by certain of the Group's subsidiaries, the provision representing accrued compensation to 31 December 1995 that may become payable after more than one year, as described in the Compensation committee report on pages 46 and 47.

18 Financing activities

The following table analyses the movement in the Group's financing from debt and shares during the year:

	1995		1994	
Analysis of changes in financing during 1995 and 1994	**Shares £m**	**Debt £m**	Shares £m	Debt £m
Beginning of year	**479.5**	**306.5**	455.1	371.6
Conversion of Convertible Cumulative Redeemable Preference shares	**1.0**	**-**	23.6	-
Other issues of share capital	**2.2**	**-**	0.8	-
Repayment of bank loans	**-**	**(20.6)**	-	(47.2)
Reduction in drawings on bank loans	**-**	**(12.1)**	-	(1.4)
Financing costs included in net debt	**-**	**(5.4)**	-	-
Exchange adjustments on long-term borrowings	**-**	**2.4**	-	(19.3)
Loan notes issued in respect of acquisitions in prior years	**-**	**-**	-	2.8
End of year	**482.7**	**270.8**	479.5	306.5

The above table excludes bank overdrafts and short-term bank loans which fall within cash and cash equivalents for the purposes of the consolidated cash flow statement.

1 Shares

At the beginning of the year the Group's share base comprised equity share capital and premium of £473.1 million and non-equity interests of £6.4 million. At the end of the year, the Group's share base was entirely composed of ordinary equity share capital and share premium, further details of which are disclosed in notes 20 and 21.

2 Debt

Credit Facility Agreement

The majority of the Group's debt is funded under a new $800 million syndicated Credit Facility Agreement dated August 1995, which replaced the previous financing agreement which was due to expire in 1997. The new facility comprises $400 million of term debt and a $400 million working capital facility, which covers the majority of its facility requirements. At the year end term borrowings of $380 million were outstanding and are repayable in instalments of $55 million during 1996, $65 million during 1997, $75 million during 1998, $85 million during 1999 and the balance of $100 million by August 2000. The Group's syndicated term and working capital, and other borrowings drawn down under the agreement at 31 December 1995 totalled $420.2 million (1994: $460.7 million).

Interest on the majority of the Group's borrowings is payable at a margin of between 0.75% and 1.375% (determined by the level of borrowing and on certain covenant conditions being met) over US dollar LIBOR and, for a significant proportion of borrowings, is hedged for the next three to four years at US dollar LIBOR rates of between 5.5% and 6.1% (excluding margin and hedging costs).

Borrowings under the Credit Facility Agreement are secured by guarantees given by various of the Group's operating subsidiaries and pledges of the issued share capital of certain companies which own the majority of the Group's operating subsidiaries, and are governed by certain financial covenants based on the results and financial position of the Group.

18 **Financing activities** continued

Other facilities

The Group's debt also includes amounts funded by certain other medium-term financing arrangements, and unsecured loan notes.

The Group's unsecured loan notes are repayable during the years 1996 to 1997. Certain notes carry warrants to subscribe for ordinary shares of the Company (note 20).

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

Debt:	**1995 £m**	1994 £m
Within 1 year	**38.2**	15.7
Between 1 and 2 years	**43.7**	44.9
Between 2 and 5 years	**187.9**	244.9
Over 5 years – by instalments	**1.0**	1.0
Debt financing under the Credit Facility Agreement and from unsecured loan notes	**270.8**	306.5
Borrowings included within cash and cash equivalents for the purposes of the consolidated cash flow statement:		
Short-term bank loans and overdrafts – within 1 year	**33.8**	46.1
	304.6	352.6

19 **Movements in net cash/(debt), working capital and provisions during 1995 and 1994**

The following table analyses cash and cash equivalents, and net cash/(debt), as disclosed in the consolidated cash flow statement:

Analysis of cash, cash equivalents and net cash/(debt) as shown in the consolidated balance sheet	**1995 £m**	Change in year £m	1994 £m	Change in year £m	1993 £m
Cash at bank and in hand	**376.0**	61.4	314.6	(2.3)	316.9
Bank overdrafts and short-term bank loans	**(33.8)**	12.3	(46.1)	(17.1)	(29.0)
Cash and cash equivalents	**342.2**	73.7	268.5	(19.4)	287.9
Debt	**(270.8)**	35.7	(306.5)	65.1	(371.6)
Net cash/(debt)	**71.4**	109.4	(38.0)	45.7	(83.7)

The following table analyses the changes in working capital and provisions in 1995 and 1994 that have contributed to the net cash inflow from operating activities in the consolidated cash flow statement:

Analysis of change in working capital and provisions during 1995 and 1994	**1995 £m**	1994 £m
Decrease/(increase) in stocks and work in progress	**12.7**	(28.8)
Increase in debtors	**(107.9)**	(95.2)
Increase/(decrease) in creditors – short-term	**154.9**	165.5
– long-term	**0.2**	(11.6)
Increase/(decrease) in provisions	**9.8**	(1.9)
Decrease in working capital	**69.7**	28.0

20 Authorised and issued share capital

Authorised	1995 Number	1995 £m	1994 Number	1994 £m
Equity ordinary shares of 10p each	1,000,000,000	100.0	799,683,000	80.0
Equity unclassified shares of $0.10 each	236,758,501	15.2	226,222,994	14.5
Non-equity Convertible Cumulative Redeemable Preference (CCRP) shares of $0.10 each	22,958,496	1.2	33,494,003	1.8

Allotted, called up and fully paid

Movements in the year were as follows:	Ordinary shares Number	Ordinary shares £m	CCRP shares Number	CCRP shares £m	Total £m
Beginning of year	720,462,433	72.0	10,535,507	0.6	72.6
Ordinary shares issued on the conversion of CCRP shares	11,823,264	1.2	(10,535,507)	(0.6)	0.6
Ordinary shares issued in further consideration for the acquisition of subsidiary undertakings	2,923,331	0.3	-	-	0.3
Options exercised	1,777,917	0.2	-	-	0.2
End of year	736,986,945	73.7	-	-	73.7

Convertible Cumulative Redeemable Preference (CCRP) shares

At 31 December 1994 there were 10,535,507 CCRP shares in the Group's balance sheet with a nominal value of £0.6 million and share premium of £5.8 million. Under the terms of the CCRP share agreement, these were converted in April and May 1995 into 11,823,264 ordinary shares.

Unclassified shares

Provisions in the Company's Articles of Association concerning the CCRP shares allow the directors to re-designate the reduction in authorised CCRP share capital following their conversion into ordinary shares as authorised shares of another class. Consequently, on conversion of CCRP shares during 1995, the relevant CCRP share capital was re-designated as 10,535,507 unclassified shares of $0.10 each, making a total of 236,758,501 authorised shares. The unclassified shares have no rights attached to them. No shares of this class were issued during the year.

Warrants

5,071,025 subscription warrants are in issue, each of which carries the right to subscribe for one ordinary share of the Company on 30 June 1996 inclusive at a subscription price of £10.00 per share.

Share options

As at 31 December 1995, unexercised options totalling 29,847,207 have been granted under the WPP Executive Share Option Scheme as follows:

Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
58,718	3.06	1989 - 1996
8,148	3.33	1989 - 1996
93,231	6.46	1990 - 1997
126,175	5.89	1990 - 1997
140,028	4.12	1991 - 1998
109,218	4.06	1991 - 1998
244,032	4.29	1991 - 1998
136,738	5.49	1994 - 1999
151,782	6.20	1994 - 1999
36,938	5.43	1995 - 2000
73,606	3.97	1995 - 2000

Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
744,471	1.33	1996 - 2001
1,247,021	0.56	1997 - 2002
1,510,848	0.295	1995 - 2002
2,835,941	0.525	1996 - 2003
3,070,808	1.02	1996 - 2003
584,278	1.15	1997 - 2004
6,681,912	1.19	1997 - 2004
2,570,487	1.08	1998 - 2005
9,353,860	1.54	1998 - 2005
68,967	1.58	1998 - 2005

21 Reserves

Movements during the year were as follows:	Share premium account £m	Goodwill write-off reserve £m	Other reserves £m	Profit and loss account £m
Balance at beginning of year	406.9	(1,032.9)	103.7	339.8
Share premium and foreign exchange arising on the conversion of Convertible Cumulative Redeemable Preference shares	0.4	-	(1.0)	-
Other shares issued (note 20)	1.7	2.9	-	(1.1)
Write-off of goodwill arising on consolidation in the year (note 22)	-	(10.2)	-	-
Exchange adjustments	-	-	(5.3)	-
Retained profit for the financial year	-	-	-	59.0
Balance at end of year	**409.0**	**(1,040.2)**	**97.4**	**397.7**

Reserves as at 31 December 1995 were composed entirely of equity interests.

Other reserves at 31 December 1995 comprise: capital reserve £1.9 million (1994: £1.9 million); currency translation deficit £79.5 million (1994: £73.2 million); and revaluation reserve £175.0 million (1994: £175.0 million). Cumulative goodwill resulting from acquisitions which has been written off to the goodwill write-off reserve, net of goodwill relating to disposals transferred to the profit and loss account, amounts to £1,160.5 million.

The terms of issue of the CCRP shares require that they be revalued at the current rate of exchange prior to conversion. The exchange difference arising from the revaluation of CCRP shares in April and May 1995 has been transferred to the currency translation reserve in the Company's financial statements.

22 Acquisitions and disposals

The Group did not make any material acquisitions or disposals during 1995. Further amounts paid either in cash or in share capital in respect of earlier acquisitions gave rise to goodwill of £10.2 million (note 21).

23 Guarantees and other financial commitments

a) *Capital commitments*

At the end of the year, capital commitments were:	1995 £m	1994 £m
Contracted for but not provided for	**0.7**	0.7
Authorised but not contracted for	**0.9**	1.3
	1.6	2.0

b) *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.

23 Guarantees and other financial commitments continued

c) *Operating lease commitments*

The Group has entered into non-cancellable leases in respect of plant and machinery. The total annual rental for 1995 was £17.3 million (1994: £17.3 million). The lease agreements provide that the Group will pay all insurance, maintenance and repairs.

In addition, the Group leases certain land and buildings on short and long leases. The annual rental on these leases for 1995 was £86.0 million (1994: £90.7 million). The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The Group pays for the insurance, maintenance and repair of these properties.

The minimum committed annual rental payable in the following year under the foregoing leases will be as follows:	Plant and machinery		Property	
In respect of operating leases which expire:	**1996 £m**	1995 £m	**1996 £m**	1995 £m
– within 1 year	**4.9**	5.6	**14.9**	8.8
– within 2 to 5 years	**11.2**	10.1	**9.6**	21.6
– after 5 years	**0.9**	-	**55.4**	58.7
	17.0	15.7	**79.9**	89.1

d) *Pension arrangements*

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

The Group's pension costs are analysed as follows:	**1995 £m**	1994 £m
Defined contribution schemes	**16.9**	14.8
Defined benefit schemes	**8.2**	7.9
	25.1	22.7

Where defined benefit schemes exist the pension cost is assessed in accordance with the advice of qualified actuaries using the projected unit credit and attained age methods. The latest actuarial assessments of the schemes were undertaken within the last three years. The major assumptions used by the actuaries were that in general the return on plan assets would be 9% per annum, salary increases would be between 4% per annum and 8% per annum and pension increases would be 5% per annum. The market value of plan assets totalled £99.2 million at the year-end and the actuarial value of the assets was sufficient to cover approximately 102% of the benefits which had accrued to members after allowing for expected future increases in salaries.

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

24 Principal operating subsidiary undertakings, related undertakings and divisions

The Company's principal subsidiary undertakings, related undertakings and divisions at 31 December 1995 are shown below, together with a note of their principal activity and country of operation or registration. The Company directly or indirectly held 100% (except as noted) of each class of the issued shares of the subsidiaries.

Media advertising

Company	Activity	Country
Cole & Weber	Media Advertising	USA
Conquest	Media Advertising	France
J. Walter Thompson Company	Media Advertising	USA
Ogilvy & Mather Worldwide	Media Advertising	USA

Public relations

Company	Activity	Country
Carl Byoir & Associates	Public Relations	USA
Hill and Knowlton	Public Relations	USA
Ogilvy Adams & Rinehart	Public Relations	USA
Timmons and Co.	Public Affairs and Government Relations	USA
The Wexler Group	Public Affairs and Government Relations	USA

Market research

Company	Activity	Country
The Kantar Group	Market Research	England
BMRB International	Market Research	England
Millward Brown International	Market Research	England
Research International	Market Research	England
Simmons	Market Research	USA
Winona/Research Resources	Market Research	USA

Specialist communications

Company	Activity	Country
Anspach Grossman Enterprise	Identity Consultancy	USA
Brouillard Communications	Business to Business Advertising	USA
BDG/McColl	Interior Design, Architecture and Graphic Design	England
Coley Porter Bell	Brand Identity	England
A Eicoff & Co.	Direct Marketing	USA
Einson Freeman	Sales Promotion	USA
EWA	Database Marketing	England
Ferguson Communications Group	Specialist Healthcare Advertising	USA
The Futures Group (20%)	Strategic Marketing Consultancy	USA
The Grass Roots Group (50%)	Incentive and Motivation	England
The Henley Centre	Strategic Marketing Consultancy	England
HLS CORP	Specialist Healthcare Education and Marketing	USA
J. Walter Thompson Direct	Direct Marketing	USA
Mando Marketing	Sales Promotion	England
TMC	Sales Promotion and Marketing	England

24 Principal operating subsidiary undertakings, related undertakings and divisions continued

Specialist communications continued

Company	Activity	Country
Mendoza, Dillon & Asociados	Hispanic Marketing	USA
Metro Group	Audio Visual Products/Services	England
Oakley Young 4th Dimension	Point-of-Purchase	England
Ogilvy & Mather Direct	Direct Marketing	USA
Pace	Real Estate Marketing	USA
Primary Contact	Business, Finance and Recruitment Advertising	England
Promotional Campaigns Group	Promotional Marketing	England
RTC Direct	Relationship Marketing	USA
SampsonTyrrell Enterprise	Identity Consultancy	England
SBG Partners Enterprise	Packaging and Brand Identity	USA
Scott Stern Associates	Design and Marketing	Scotland
S.U.N. Health-Core	Healthcare Marketing	USA
JWT Specialized Communications	Recruitment Advertising	USA
Walker Group/CNI	Retail Architecture, Interior and Graphic Design	USA

Manufacturing

Company	Activity	Country
Wire and Plastic Products	Manufacture of Wire and Sheet Metal Products	England

Company balance sheet

As at 31 December 1995

Notes		1995 £m	1994 £m
	Fixed assets		
25	Tangible assets	**1.2**	1.0
26	Investments	**930.7**	803.6
		931.9	804.6
	Current assets		
27	Debtors (including amounts falling due after more than one year)	**357.4**	282.8
	Cash at bank and in hand	**7.2**	35.5
		364.6	318.3
28	**Creditors:** amounts falling due within one year	**(346.4)**	(177.9)
	Net current assets	**18.2**	140.4
	Total assets less current liabilities	**950.1**	945.0
29	**Creditors:** amounts falling due after more than one year	**(142.3)**	(188.5)
	Net assets	**807.8**	756.5
	Capital and reserves		
20	Called up share capital	**73.7**	72.6
30	Share premium account	**409.0**	406.9
30	Merger reserve	**120.5**	117.6
30	Currency translation reserve	**(33.2)**	(32.2)
30	Profit and loss account	**237.8**	191.6
	Total capital employed	**807.8**	756.5

Signed on behalf of the Board on 16 May 1996:
M S Sorrell
Group chief executive

R E Lerwill
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 £46.2 million (1994: loss of £14.7 million) in respect of the Company.

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

25 Tangible fixed assets

The movement in the year was as follows:	Short leasehold buildings £m	Fixtures, fittings and equipment £m	Total £m
Cost:			
Beginning of year	0.6	1.4	2.0
Additions	0.1	0.5	0.6
End of year	0.7	1.9	2.6
Depreciation:			
Beginning of year	0.2	0.8	1.0
Charge	0.1	0.3	0.4
End of year	0.3	1.1	1.4
Net book value:			
End of year	0.4	0.8	1.2
Beginning of year	0.4	0.6	1.0

26 Fixed asset investments

The following are included in the net book value of fixed asset investments:	Subsidiary undertakings £m	Own shares £m	Total £m
Beginning of year	799.4	4.2	803.6
Additions	120.9	6.2	127.1
End of year	920.3	10.4	930.7

Further details of the Company's holdings of own shares are detailed in note 11 to the consolidated balance sheet.

27 Debtors

The following are included in debtors:	**1995 £m**	1994 £m
Amounts owed by subsidiary undertakings	**350.8**	278.2
Other debtors	**6.2**	4.3
Prepayments and accrued income	**0.4**	0.3
Total debtors	**357.4**	282.8

Included within amounts owed by subsidiary undertakings are loans totalling £235.0 million (1994: £178.9 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:	**1995 £m**	1994 £m
Bank loans and overdrafts	**23.4**	21.2
Unsecured loan notes	**-**	2.8
Amounts due to subsidiary undertakings	**305.7**	137.8
Taxation and social security	**0.1**	2.8
Dividends proposed	**6.4**	5.5
Other creditors and accruals	**10.8**	7.8
	346.4	177.9

29 Creditors: amounts falling due after more than one year

The following are included in creditors falling due after more than one year:	**1995 £m**	1994 £m
Bank loans	**29.5**	10.9
Amounts due to subsidiary undertakings	**104.4**	177.6
Other creditors and accruals	**8.4**	-
	142.3	188.5

The following is an analysis of all bank loans and unsecured loan notes by year of repayment:	**1995 £m**	1994 £m
Within 1 year	**-**	24.0
Within 2 to 5 years	**29.5**	10.9
	29.5	34.9

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

30 Reserves

Movements during the year were as follows:	Share premium account £m	Merger reserve £m	Currency translation reserve £m	Profit and loss account £m
Balance at beginning of year	406.9	117.6	(32.2)	191.6
Conversion of Convertible Cumulative Redeemable Preference shares (note 21)	0.4	-	(1.0)	-
Other shares issued	1.7	2.9	-	-
Retained profit for the financial year	-	-	-	46.2
Balance at end of year	409.0	120.5	(33.2)	237.8

Reserves as at 31 December 1995 were entirely attributable to equity interests. At 31 December 1995 the Company's distributable reserves amounted to £237.8 million.

Notes to the Company balance sheet

31 Guarantees and other financial commitments

a) *Capital commitments*
At the end of the year, the Company did not have any significant capital commitments.

b) *Contingent liabilities*
The Company is, from time to time, a party 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 Company's financial position.

c) *Operating lease commitments*
The Company leases certain land and buildings on leases expiring after five years, under which it pays for the insurance, maintenance and repair of these properties. The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The annual rental on these leases for 1995 was £3.3 million (1994: £3.3 million), of which £2.8 million (1994: £2.8 million) was reimbursed by an operating subsidiary. The minimum committed annual rentals payable during 1996 under the foregoing leases totals £3.4 million (1995: £3.4 million).

In the normal course of its activities the Company has also guaranteed certain of the property leases entered into by its UK subsidiaries, which expire over periods of up to 20 years. The rents payable under the above leases during 1996 total £1.0 million (1995: £1.0 million).

d) *Pension arrangements*
The pension cost for the Company of £0.6 million (1994: £0.3 million) represents amounts payable into individually administered personal pension plans in the names of the Company's eligible UK employees.

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.

	For the year ended 31 December 1995 £m	1994 £m
Net income before dividends		
Net income before dividends under UK GAAP	**68.7**	47.4
US GAAP adjustments:		
Amortisation of goodwill and other intangibles	**(35.7)**	(34.7)
Amortisation of July 1992 capital restructuring costs	**(7.3)**	(3.2)
Amortisation of Convertible Cumulative Redeemable Preference share issue costs	**-**	(4.1)
	(43.0)	(42.0)
Net income as adjusted for US GAAP	**25.7**	5.4
Primary earnings per share as adjusted for US GAAP	**3.56p**	0.73p
Calculation of primary earnings per share:		
Net earnings per share	**3.56p**	0.92p
Preference dividend accrued per share	**-**	(0.19)p
Primary earnings per share	**3.56p**	0.73p

Net income per share and the preference dividend per share have been calculated by dividing the net income as adjusted for US GAAP differences, and the preference dividend, by the weighted average number of ordinary shares in issue during the year, as detailed in note 8 to the consolidated profit and loss account.

	As at 31 December 1995 £m	1994 £m
Share owners' funds		
Share owners' funds under UK GAAP	**(62.4)**	(109.9)
US GAAP adjustments:		
Capitalisation of goodwill arising on acquisition (net of accumulated amortisation and amounts capitalised under UK GAAP)	**1,054.7**	1,021.6
Reversal of revaluation of corporate brand names	**(175.0)**	(175.0)
Reclassification of Convertible Cumulative Redeemable Preference shares to long-term creditors, net of issue costs carried forward	**-**	(7.4)
Proposed final ordinary dividend, not yet declared	**6.4**	5.4
Cost of July 1992 capital restructuring carried forward for future amortisation	**-**	7.3
Other	**(4.9)**	(5.1)
	881.2	846.8
Share owners' funds as adjusted for US GAAP	**818.8**	736.9

Gross goodwill capitalised under US GAAP (before accumulated amortisation) amounted to £1,300.9 million at 31 December 1995 (1994: £1,196.7 million), net of disposals made. The movement in goodwill arises primarily due to its denomination in various currencies, resulting in exchange rate movements against sterling.

Reconciliation to US Accounting Principles

Significant differences between UK and US Accounting Principles

The Company'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:

1 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 Company 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 Company is amortising goodwill over 40 years. The Company 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.

2 Corporate brand names

Under UK GAAP, the Company 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.

3 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 (note 18), the balance of the unamortised expenses from the 1992 restructuring were charged against 1995 income for US GAAP purposes.

4 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 Company. Under US GAAP, dividends are only provided when the legal obligation to pay arises.

5 Convertible Cumulative Redeemable Preference shares

Under UK GAAP, the Company's Convertible Cumulative Redeemable Preference (CCRP) shares issued in 1992 are considered to be part of share owners' equity, whereas under US GAAP they should be classified as long-term borrowings. In addition, under UK GAAP the costs of issuing such shares may be written off against the share premium account, whereas under US GAAP the issue costs should be amortised to the profit and loss account over the period between issue and redemption of the shares.

Under US GAAP, the CCRP shares qualify for treatment as Common Stock equivalents in the computation of primary earnings per share, if and when their effect is dilutive.

Profit and loss	1995 £m	1994 £m	1993 £m	1992 £m	1991 £m
Turnover (gross billings)	**6,553.1**	6,013.7	6,029.9	5,367.1	5,075.3
Revenue	**1,554.9**	1,426.9	1,430.7	1,273.4	1,204.4
Operating profit (1)	**139.2**	112.1	95.0	70.8	59.7
Profit before tax	**113.7**	85.3	54.4	7.8	56.1
Profit for the financial year	**68.7**	47.4	22.9	(11.9)	31.0
Revenue per employee (£'000)	**77.2**	74.3	70.1	61.6	56.8
Operating profit per employee (£'000)	**6.9**	5.8	4.7	3.4	2.8
Average headcount	**20,152**	19,198	20,416	20,664	21,218

Balance sheet	£m	£m	£m	£m	£m
Fixed assets	**524.5**	505.6	504.5	517.3	498.0
Net current liabilities	**(165.0)**	(146.7)	(149.2)	(60.9)	(68.5)
Creditors: Amounts falling due after more than one year	**(328.7)**	(387.7)	(412.3)	(579.7)	(562.0)
Provisions for liabilities and charges	**(88.8)**	(76.9)	(103.9)	(118.6)	(125.6)
Net liabilities	**(58.0)**	(105.7)	(160.9)	(241.9)	(258.1)
Net cash/(debt)	**71.4**	(38.0)	(83.7)	(239.8)	(333.7)
Average net debt	**(214.0)**	(268.0)	(361.0)	(437.0)	(472.0)

Share information					
Basic earnings per ordinary share (net basis)	**9.5p**	7.9p	4.9p	(8.0)p	23.9p
Fully diluted earnings per share (net basis) (3)	**9.1p**	6.5p	3.4p	n/a	n/a
Dividends per share	**1.31p**	1.135p	1.0p	-	-
Dividend cover (2)(3)	**6.9**	5.7	3.4	n/a	n/a
Share price – high	**168p**	132p	107p	102p	204p
– low	**100p**	87p	41p	23p	23p
Market capitalisation (£m) at year end	**1,208.7**	785.3	463.2	104.8	26.0

Notes
1 The 1991 and 1992 results have been restated to take into account the implementation of Financial Reporting Standard 3.
2 Fully diluted earnings per share (net basis) divided by dividends per share.
3 Fully diluted earnings per share and dividend cover figures are not disclosed prior to 1993 due to a change in basis following the 1992 rights issue.

Share owners' information

Financial calendar

- The 1995 final dividend will be paid on 15 July 1996 to share owners on the register at 18 June 1996.
- 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:	**1995**	1994
Ordinary 10p shares	**164.0p**	109.0p
Share warrants	**3.0p**	3.0p

The latest ordinary share price information is available on Ceefax and Teletext and also the Cityline service operated by the *Financial Times* (telephone 0891 434544; calls charged at 39p per minute cheap rate and 49p per minute at all other times).

Share owners by geography

United Kingdom	**63%**
United States of America	**31%**
Other regions*	**6%**
Total	**100%**

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

Share owners by type

Institutional investors	**86%**
Employees	**8%**
Other individuals	**6%**
Total	**100%**

Access numbers

	NASDAQ	Reuters 2000	Topic
Ordinary shares		WPPL.L	52945
Warrants		WPPLws.L	52946
American depository receipts	WPPGY		

Registrar and transfer office

Royal Bank of Scotland plc
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
USA

WPP registered office

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

Reclaiming income tax on dividends

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

Capital gains tax

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

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

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

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Japan
7 offices

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

If you would like contact information on our worldwide offices please consult the WPP 'Yellow Pages' Directory enclosed with this Report, or contact:

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Written and produced by WPP Group plc

Designed by SampsonTyrrell Corporate Publications, London

Printed in the UK by Westerham Press, St Ives plc
on paper from sustainable sources

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