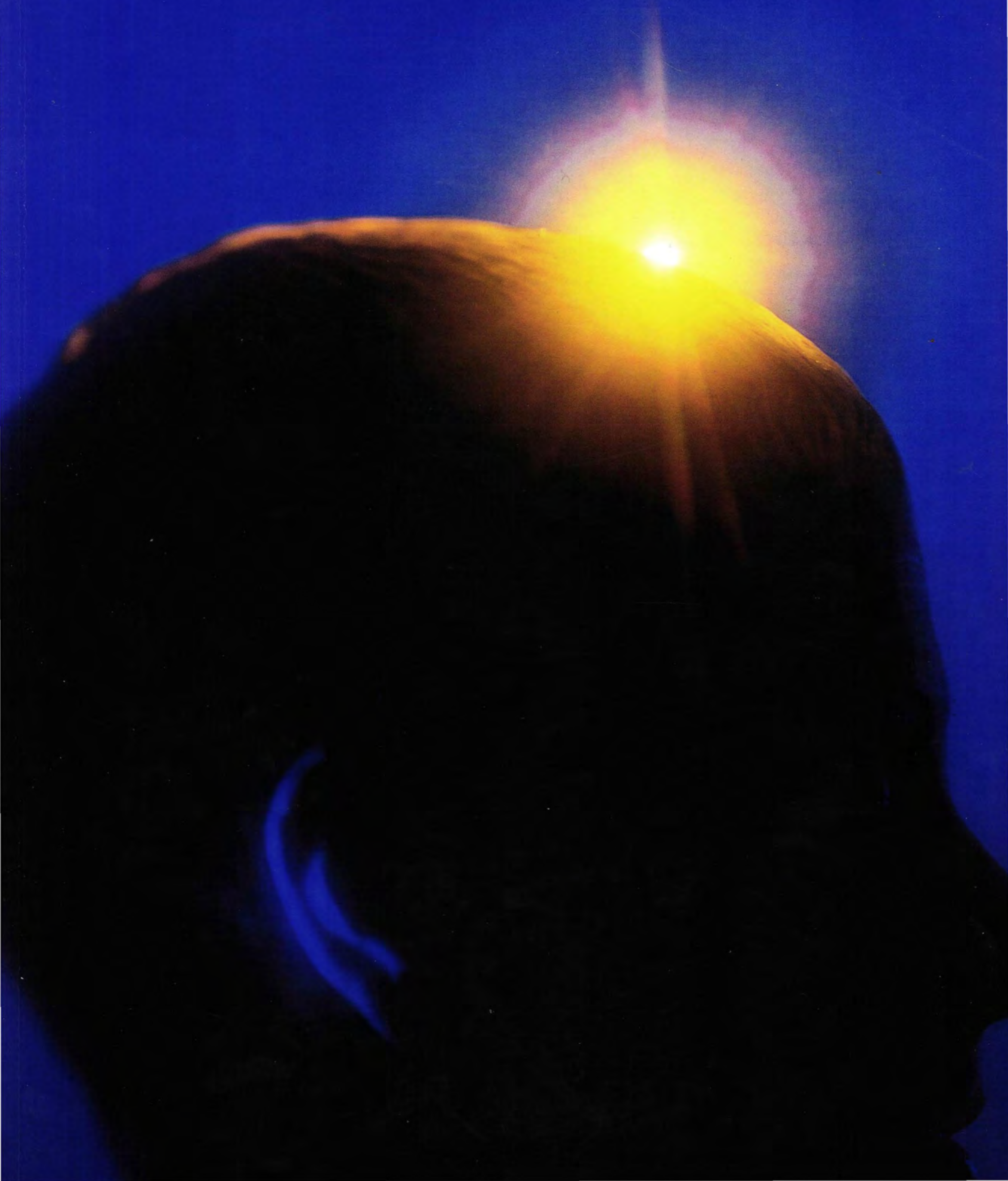
WPP Group plc

Annual Report and Accounts 1996



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Who we are

WPP is the world's largest communications services group. Our Group employs 22,100 people and operates from around 800 offices in 90 countries. Clients include more than 300 of the Fortune Global 500.

Our mission

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.

The role of the parent company

To shoulder all those financial and administrative tasks which can most efficiently be undertaken centrally: so enabling the operating companies to direct their energies into client service.

Increasingly, to identify and deliver across-Group services which complement the professional activities of the individual companies. Contributions are already being made in training, recruitment and career development, media buying and research, healthcare, privatisation, rapidly-growing markets, new technologies and internal communications.

In the interests of clarity, and to reflect the evolving nature of our business, we've made some changes to the way we describe the Group and its different sectors.

WPP Group, advertising and marketing services is now **WPP Group, communications services**

Media advertising is now **Advertising**
Market research is now **Information & consultancy**
Public relations is now **Public relations & public affairs**
Specialist communications remains **Specialist communications**

Our operating companies

Each WPP company is a distinctive brand in its own right: with its own identity and own area of expertise. That is their strength.

What they have in common is that they harness intelligence, talent and experience to bring competitive advantage to their clients.

Advertising

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

Information & consultancy

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

Public relations & public affairs

Hill and Knowlton
Ogilvy & Mather Public Relations
Carl Byoir & Associates
Ogilvy Adams & Rinehart
Timmons and Company
The Wexler Group

Specialist communications

Branding, identity & design

Coley Porter Bell
Enterprise Identity Group:
- Anspach Grossman Enterprise
- Sampson Tyrrell Enterprise
- SBG Partners
- Artistree Enterprise
- O&M Identity Enterprise

Sampson Tyrrell Corporate Marketing
Scott Stern

Direct, promotion & relationship marketing

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

Strategic marketing

The Henley Centre
The Futures Group

Media & technology services

Metro Group

Sector marketing

Healthcare

The CommonHealth
Ferguson Communications Group
HLS CORP
Zoe Medical

Recruitment

JWT Specialized Communications

Corporate & financial

Brouillard
Primary Contact

Retail & working environments

BDG/McColl
WalkerGroup/CNI

Internal marketing

Banner McBride

Real estate

Pace Communications

Ethnic marketing

Mendoza Dillon & Asociados

1996 financial overview

	1996	1995	Change (%)
Turnover	£7,084m	£6,553m	+8.1%
Cost of sales	£5,393m	£4,998m	+7.9%
Revenues	£1,691m	£1,555m	+8.8%
Earnings before interest, tax, depreciation and amortisation	£211m	£176m	+20%
Operating profit	£182m	£149m	+22%
Operating profit margin	10.8%	9.6%	+1.2%
Profit before tax	£153m	£114m	+35%
Fully diluted earnings per share	13.3p	9.1p	+46%
Fully diluted earnings per ADR*	$2.08	$1.44	+44%
Ordinary dividend per share	1.7p	1.31p	+30%
Ordinary dividend per ADR*	26.6¢	20.7¢	+29%
Net cash at year-end	£159m	£71m	+124%
Average net debt	£145m	£214m	-32%
Share price at year-end	254.0p	164.0p	+55%
Market capitalisation	£1,883m	£1,209m	+56%

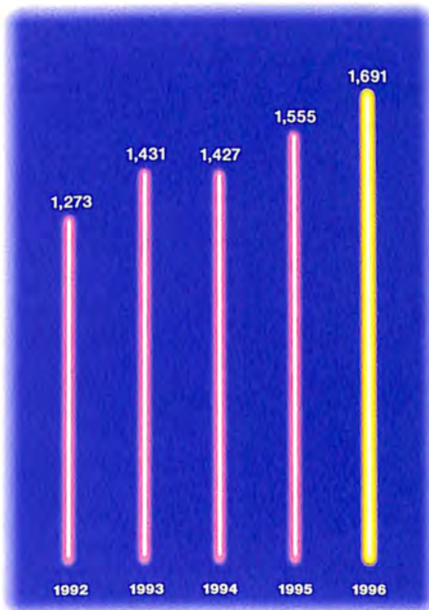
For a full financial review, please turn to page 56.

*One American Depositary Receipt (ADR) represents 10 ordinary shares

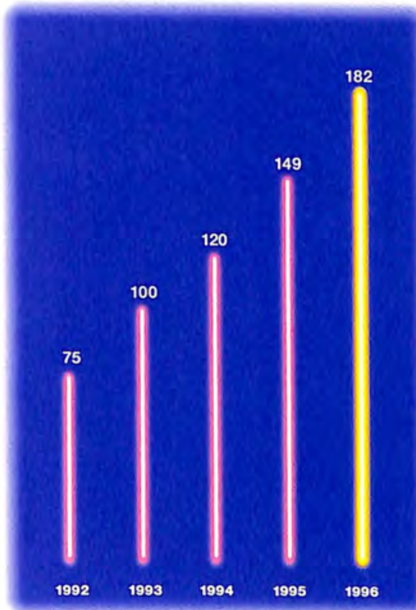
Five-year performance

WPP has been the best performing share among major quoted communications services groups in the UK and US in each of the last five years. We enjoyed a record year in 1996 with good revenue performance and significant improvement in margins across all of our businesses. A breakdown of our performance by business sector and geography appears overleaf and our competitive performance is discussed on page 6.

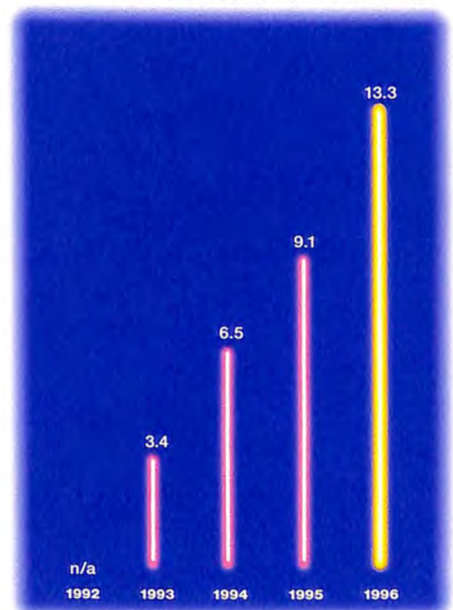
Revenue (£m)



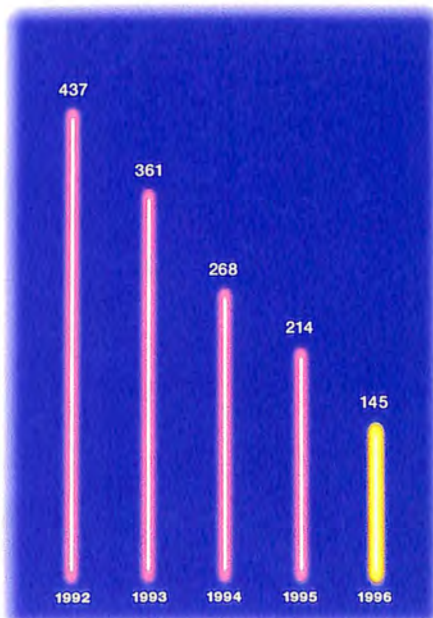
Operating profit (£m)



Fully diluted earnings per share (p)



Average net debt (£m)



WPP total return to share owners relative to peer group (rebased to 1992)

WPP   S&P 500   FTSE 100   Peer group   Index: 1992=100

Sector performance

Revenue (%)

Operating profit (%)

Advertising

1996 was another good year for the Group's advertising businesses.

The combined revenues of J. Walter Thompson Company and Ogilvy & Mather Worldwide – our two largest companies – rose 7% and operating margins improved from 12.9% to 14.4%.

Information & consultancy

This sector continues to be one of our best performing areas. Revenue rose by nearly 11%, gross margins by over 10% and operating margins by 0.7%, contributing to a 20% rise in operating profit.

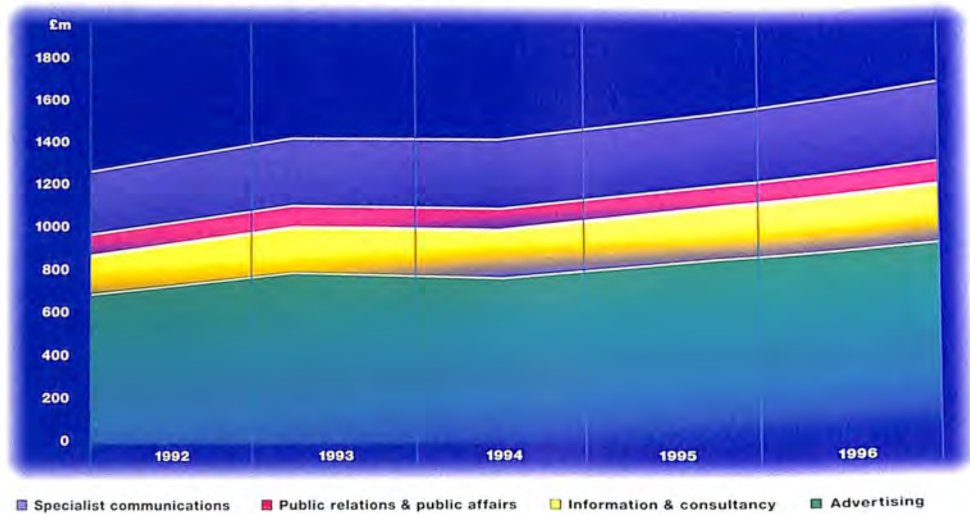
Public relations & public affairs

The Group's public relations and public affairs businesses showed a marked improvement from a loss making position in 1995 to profitability in 1996. This resulted from better than expected revenue growth of 8.3% and significant improvement in margins.

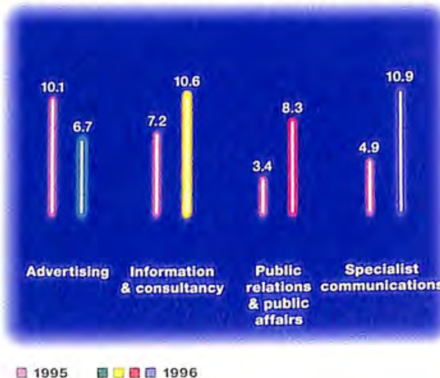
Specialist communications

Our specialist communications companies had a good year with revenues up by 11% and gross margins by over 8%. In addition to this top line growth, operating margins improved by 1% resulting in a 30% improvement in operating profit.

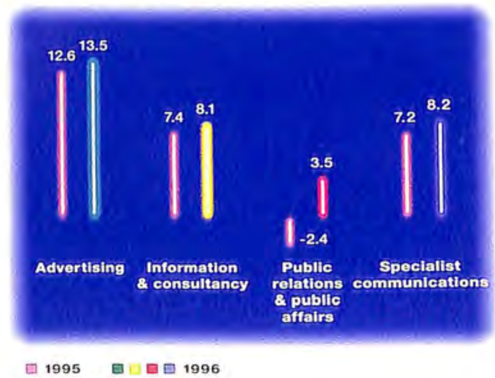
Five-year trend of revenue by sector (£m)



Like-for-like revenue growth* (%)



Operating margins (%)

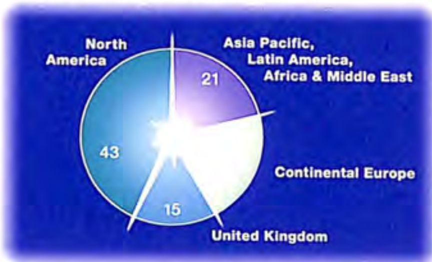


**Excludes the effects of acquisitions, disposals and currency movements*

Geographic performance

Revenue (%)

Operating profit (%)



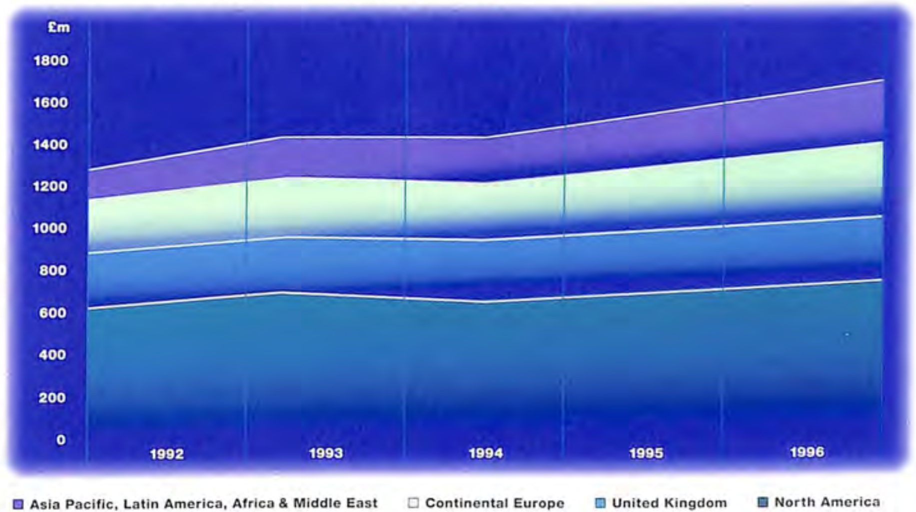
WPP derives 80% of its revenue from outside the UK through its leading businesses in North America, Continental Europe, Asia Pacific, Latin America, Africa and the Middle East.

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

Since 1990 these faster growing markets, together with Central and Eastern Europe, have risen from 11% to 20% of the Group's revenue and Brazil and China now rank sixth and seventh respectively in our top ten markets worldwide.

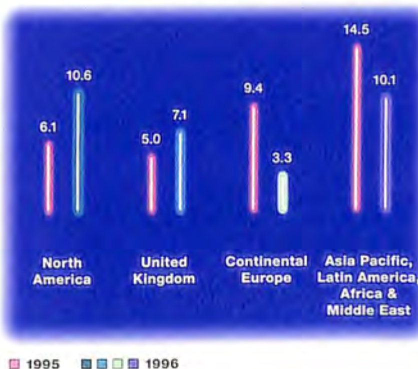
In 1996, the Group's revenue increased by over 8%. Performance was well ahead of this in North America, Asia Pacific, Latin America, Africa and the Middle East. The UK also had a better year with a particularly strong second half. Performance in Continental Europe suffered in the face of high unemployment and negligible economic growth, although we continue to perform very competitively in this region.

Five-year trend of revenue by geography (£m)



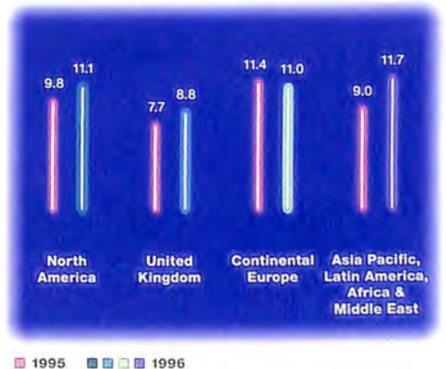
Asia Pacific, Latin America, Africa & Middle East | Continental Europe | United Kingdom | North America

Like-for-like revenue growth* (%)



1995 1996

Operating margins (%)



1995 1996

**Excludes the effects of acquisitions, disposals and currency movements*

Competitive performance

While the last five years have seen a significant improvement in the Group's performance we are still lagging behind the two best financial performers in the industry – The Interpublic Group of Companies (IPG) and Omnicom Group Inc. (Omnicom). These companies regularly achieve operating margins in the region of 13-15% compared to our margin in 1996 of 10.8%.

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

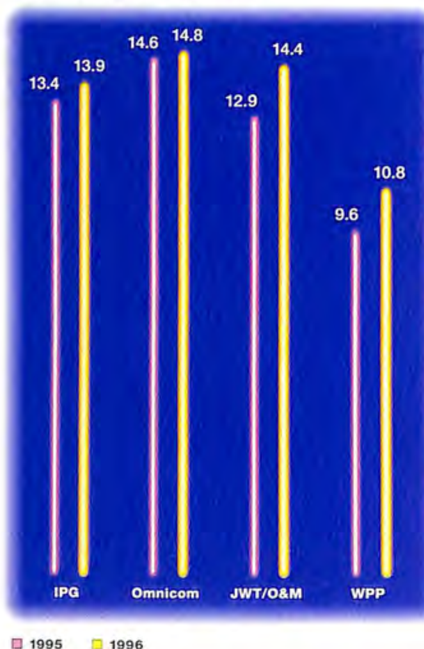
In addition, we have begun to look more radically at the way our businesses are structured and organised. As discussed on page 26, our industry remains pretty conservative in approach and returns have suffered accordingly. This is especially true in comparison with other people- and knowledge-based industries (such as management consulting) where a 13% return on sales would be considered poor.

Key competitive ratios:

Revenue per head ($000)

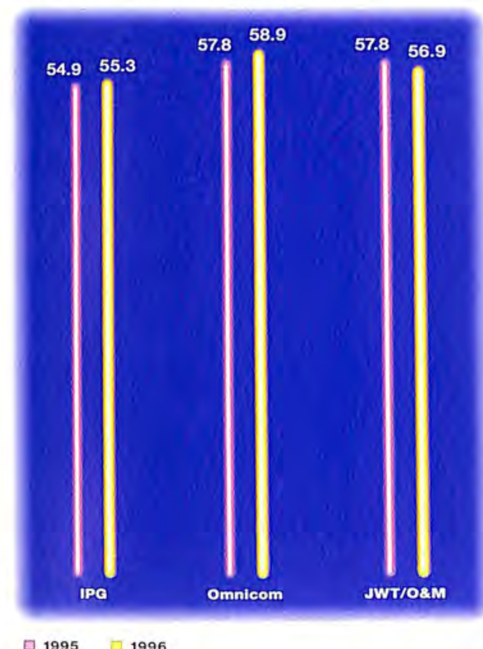
1995 1996

Operating margin (%)



1995 1996

Staff cost/revenue ratio (%)



1995 1996

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, 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.

Dear share owner

1996 was an even better year than 1995 with record pre-tax profits of over £153 million, earnings per share up 46%, dividends up 30% and the measure of your wealth, the share price, up 55%.

Like-for-like revenues were up over 8%. They grew well across all of our marketing disciplines; advertising, information and consultancy, public relations and public affairs, and specialist communications. They improved geographically too, across North America, the United Kingdom, Asia Pacific and Latin America, perhaps with the exception of Continental Europe which was last into the recession of the 1990s.

Operating margins were up by well over 1% as we balanced the growth of our investment in people and property with expansion in our revenues. As a result, operating profits were up over 20% to more than £182 million.

Pre-tax profits were up even more, by 35%, as interest costs and similar charges were reduced by lower US interest rates and improved profitability and cash flow. We are generating £75-100 million free cash flow and our average net debt fell 32% last year from £214 million to £145 million.

Finally, earnings per share rose even faster as we reduced our tax charge from 38% to 33%.

In short, we were firing on all cylinders.

1997 has started well and should see further improvement. After three months, revenues on a like-for-like basis are up 6%, and net debt has halved to £78 million. Operating margins have continued to rise in line with the Group's objective of an improvement of at least 1% per annum. Having risen to 279p, the share price has maintained its 1996 year-end position.

Since our recovery from the dark days of the early 1990s we have been focusing increasingly on developing our long-term strategy and on how we can unlock added value for our clients and our people.

Our goal is to become the world's most successful and preferred provider of communications services to both multinational and national companies. To achieve this we have five key objectives.

- First, to continue to raise operating margins to the level of the very best performing competition, from almost 11% last year to approximately 13%.
- Second, to increase the flexibility in our cost structure to cope with the inevitable recession when it comes. Our investment in people and property accounts for approximately 60% of revenues. Variable staff costs, including not only incentive compensation but also freelancers and consultants, now account for approximately 6% of revenues and should be 7-8%.
- Third, to continue to reduce the level and cost of debt. We are now very close to our target of reducing average levels of debt to approximately £100 million and so will also be examining how we can enhance share owner value through investing not

100 and 300 Clubs

Members of these clubs are drawn from top management and senior professionals in Group companies. They participate in WPP's Executive Stock Option Awards program which encourages them to think and act with Group-wide interests in mind.

Worldwide Ownership Plan

Introduced in January 1997, the Plan enables our people to participate actively in the growing value of the Group through annual stock option grants to those with two or more years' service in a wholly-owned Group company.

Worldwide Partnership Program

This new annual Group-wide award program acknowledges and nourishes partnerships across companies and skills which demonstrably enhance client service. Clients are asked to endorse and comment on the effectiveness of the partnerships.

Atticus Awards

Launched in 1993, Atticus is WPP's annual internal award program to encourage and honour original published thinking in advertising and marketing services. It is open to WPP professionals exclusively. Up to $45,000 is awarded each year and the winning submissions are published in *The Atticus File*, our annual marketing journal for clients, marketing professionals and media worldwide.

Space Program

Our *Space Program* offers best practice guidelines, case studies and videos to support Group companies in adopting innovative processes to improve the quality and efficiency of their workplaces.

only in capital expenditures and acquisitions, but also in increasing dividends and share buy-backs.

As we are now an investment grade credit we believe we have a good chance of reducing our borrowing costs by a further ½%.

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

To this end over the last four years important new roles have been created at the parent company in human resources, property management, procurement, information technology and practice development. Individuals have been recruited from Towers Perrin, Chestertons, Dun & Bradstreet, British Airways, Booz-Allen Hamilton, the Monitor Company and our own Henley Centre. These appointments are now bearing fruit.

Lest you think that we have remorselessly been adding overheads at the centre, the parent company headcount has remained at approximately 80 people, chiefly in London, New York, Hong Kong and Sao Paulo.

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

Our intensive **training and knowledge-sharing programs** – the *Towards Brand Leadership* courses, management courses and specialised seminars on creativity, retailing and interactive media are much in demand and are invaluable in building interdisciplinary relationships. And in recruitment, our **WPP Fellowship Program**, still unique, now operates in the US and Europe. Every individual in the Group receives a personal copy of the **Navigator**, the Group guidebook to resources and capabilities, as well as the Group newspaper.

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

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

As a group we spend $65 million on computer hardware, software and information management salaries. The parent company's initiatives in **information technology** are designed to develop a coherent strategy and framework in this area which will prevent wasteful duplication and

unnecessary reinventing of wheels in various parts of our organisation. Our recent worldwide intranet investment is the first major example of this.

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

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

New internal strategic alliances are enabling us to expand our offer to clients. A recent example is Banner McBride, our newly-launched employee communications consultancy. Backed by three WPP companies in public relations, corporate identity and media technology, it enables us to help clients communicate strategic and structural change to their people.

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

- Finally, as we move up the margin curve it will be necessary to place greater emphasis on revenue growth. This will be done by focusing our revenue portfolio on those geographic and functional areas that are growing fastest. Currently, Asia Pacific, Latin

Training and knowledge-sharing programs

Strong commitment to education, training and (non-confidential) knowledge-sharing within the Group has inspired an ongoing program of intensive cross-company forums and seminars. To date, more than 600 Group company professionals from around the world have participated in a knowledge-sharing workshop: a *Towards Brand Leadership* course, a themed seminar (retail, interactivity, creative) or a *Leading the Firm* seminar. These courses are aimed at developing expertise, best practice and insights in all aspects of our business.

WPP Fellowship Program

Now in its fourth year, this unique program aims to develop a new cross-disciplinary generation of management by offering first degree and MBA graduates a three-year work experience within Group companies and in client companies. Upon completion, Fellows take up a permanent position within the Group. Twenty-four graduates are currently participating in the program.

Navigator

All our 22,100 people worldwide receive a 200-page pocket-sized guidebook to Group companies, resources, capabilities and contacts. Feedback from users is enthusiastic: *"a big step into building awareness and 'belonging' feelings"* (France); *"re-emphasises the depth of resources available... it impresses the hell out of newcomers to feel they are part of such a worldwide entity"* (China); *"a good aid in recruiting"* (US); *"really demonstrates that we are part of a bigger whole"* (Vietnam).

Procurement initiatives

A network of Group company purchasing specialists was established in 1996 and a worldwide training program has been developed to push our collective skills up to best practice purchasing benchmarks.

IT developments

The major hubs of our Group-wide global network are currently being installed. The network will support a series of intranet applications which will allow us to share information across the entire spectrum of WPP companies, in addition to providing the basis for several other strategic initiatives in 1997. Knowledge management is the most important of those initiatives. We are also undertaking a number of studies to assess the impact of new technologies (interactive, Inter/intranet) on our businesses and consumers. Other IT activities include the rationalisation of our support services and hardware and software procurement.

Digital media investments

WPP is developing a portfolio of investments in leading-edge digital media companies to help clients and our people to understand better the impact interactive technologies will have on their businesses and to develop appropriate services. Investments to date, mostly US-based, include Wired Ventures (advertising-driven content), BroadVision (Internet-related direct marketing), Individual (customised news), Peapod (on-line home shopping), Syzygy (innovative digital media applications) and HyperParallel (knowledge discovery). In addition, we have participated in a West Coast-based venture capital fund in co-operation with companies such as Sun Micro-systems and Motorola. The company, Media Technology Ventures, has a $50 million fund which it will use to finance start-ups.

America, Africa and the Middle East, Central and Eastern Europe account for 20% of our revenues as compared with 11% five years ago. We would like them to account for 33% within the next five years. Information and consultancy, public relations and public affairs, and specialist communications account for 45% of our revenues. We would like to see them account for 55% over the same five years.

To achieve this we will expand our strong advertising networks – Ogilvy & Mather Worldwide, J. Walter Thompson Company and Conquest – in high growth markets or where we feel their market share is insufficient, such as France or Japan. We will enhance our leadership position in information and consultancy by continuing to develop our major market research brands – Research International, Millward Brown and BMRB – with particular emphasis on Asia Pacific and Latin America. We will also reinforce our leadership position in direct marketing through Ogilvy & Mather Direct and continue to nurture the development of digital media through small strategic investments in this volatile and cash-guzzling area.

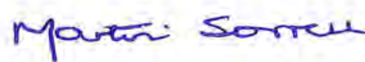
Lastly, we will continue to develop our specialist expertise in areas such as healthcare, retail, telecommunications and information technology, and identify new areas for development.

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

But I have no doubt that our people – by far our most important asset – will respond in the years ahead as they have during the year on which we now report. Our end-product – that which our clients choose to buy from us – is in all sectors the disciplined application of hard slog, experience, intuition and imagination. The most satisfactory aspect of our financial results is the evidence they provide of the professional success of those 22,100 people across 90 different countries. The strong start we have experienced to 1997 suggests that their efforts are undiminished. We applaud their talent – and thank them for their commitment and their hard work.

After six years as a non-executive director, Sir Paul Judge has indicated he would like to step down following the Annual General Meeting in June. Paul has served as a member of the Compensation committee, and on the Audit and Nomination committees. We are indebted to him for his considerable help and service over this period.

Finally, 1996 saw a change of chairman. After five challenging and progressively successful years, Gordon Stevens welcomed his successor and retired from the Board. The company remains forever indebted to him for his great good humour and balanced counsel. As his successor, we are extremely fortunate in having persuaded Hamish Maxwell to join us. He writes on page 11 of this report. In experience, achievement, personality and reputation it is difficult to imagine any better candidate as chairman of the WPP Group Board. On behalf of all our people and share owners, I am delighted to welcome him and wish him well.



Martin Sorrell
Group chief executive

Hamish Maxwell is British by birth and has been a US citizen for 25 years, having spent most of his working life in America.

He represents successful experience in marketing, finance and the media.

He has had an international marketing and management career with Philip Morris Companies Inc, serving as chairman and chief executive from 1984 to 1991.

Under his leadership, Philip Morris underwent fundamental change involving some of the largest take-overs the consumer goods industry has known: General Foods in 1985, Kraft in 1988 and Jacobs-Suchard in 1990.

He is also a non-executive director of Bankers Trust, News Corporation and Sola International.

Why I joined WPP

I was pleased and gratified to be asked to join the Board of Directors of WPP Group plc.

I enjoyed my own early experience in market research and advertising, and throughout my career I learned the crucial contributions that skilled and outstanding communications services can make to all kinds of business success. I believed that WPP exemplified a whole range of just those superior and creative skills that clients value, and I admired its management for creating a resourceful Group and for bringing the company through some adversity: *I liked its style.*

Since I joined WPP, I have seen the Board and management sharing a keen focus on improving financial performance. We also join in a lively concern with constant refinement of strategies, to improve the value of WPP and its related parts to all its constituencies: share owners, clients and our people.

Our quantitative objectives and strategies cannot be realised without our qualitative ambition of trying to be the very best at what we do. A determination to do what it takes to provide consistently superior products and services must support – and does not conflict with – our financial goals.

I am confident in the future of WPP and am privileged to share its commitment to be the best and most successful company in its field.

Hamish Maxwell
Chairman

Our brands

These are the companies that constitute the operating talent of the WPP Group. Though increasingly commissioned by clients to work in partnership with each other, they retain their own identities, their own enthusiasms and their own specialist skills.

THE FUTURES GROUP

METRO
INTEGRATED VISUAL SOLUTIONS

SampsonTyrrell
Corporate Marketing

tmc

JWT Direct

G|R|G

J. Walter Thompson

HILL & KNOWLTON

Cole & Weber

Banner McBride

Brouillard

Anspach Grossman
Enterprise

Conquest

Millward Brown
International

BDG | McCOLL

Primary Contact
Advertising

WalkerGroup/CNI

MD&A
MENDOZA, DILLON & ASOCIADOS, INC.

SBG PARTNERS
MARKETING
AND DESIGN
CONSULTANTS

RTCdirect

PACE

Simmons

COLEY PORTER BELL

BMRB
INTERNATIONAL

Ogilvy & Mather
Worldwide

CARL BYOIR
& ASSOCIATES

SCOTT STERN

OakleyYoung

einson
FREEMAN

MANDO
MARKETING

FERGUSON
COMMUNICATIONS
GROUP

Ogilvy Adams & Rinehart

PROMOTIONAL CAMPAIGNS GROUP

A. Eicoff & Company

SampsonTyrrell
Enterprise

Ogilvy & Mather Direct

The Henley Centre

EWA

On the next four pages we print their own self-selected highlights of 1996.

Highlights of the year

We invited our companies to list their defining moments of 1996. This is what they said...

A. Eicoff & Co

Helped introduce an HIV testing system for a client through the innovative use of direct response television advertising.

Partnered Ogilvy Chicago on major accounts Sears and Sunbeam resulting in synergy and success for everyone involved.

Anspach Grossman Enterprise

- *In partnership with four Group identity companies launched Enterprise Identity Group as a major global force.*
- *Developed strong growth in financial services and utility industries.*
- *Co-operated with sister companies, Brouillard and Research International.*

BMRB International

Gained and implemented an image/advertising tracking/customer satisfaction study in excess of $2 million for a major airline and was appointed to handle research consultancy for sister company The Henley Centre.

BDG/McColl

- **Worked in partnership with the WPP team and Sampson Tyrrell Corporate Marketing to develop the WPP *Space Program*, a worldwide Group initiative to create effective and innovative working environments and encourage best practice in property management.**
- **Recently won shopping centre design projects in Vienna, Cottbus, Strasbourg and Paris. In the UK schemes at Weymouth, Woking, Heathrow Airport and Exeter will soon be under way.**
- **Sister company Dovetail Contract Furniture gained the contract for the total furnishing program at Walt Disney's London HQ and won more projects in Europe for Bloomberg.**

Brouillard

TV campaign for GreenPoint Bank won us Best of Show *award from Financial Communications Society for second straight year.*

Won 10 new accounts, seven on the strength of creative work for two existing clients.

Moved to new state-of-the-art offices.

Carl Byoir & Associates

Successfully introduced the People Link regional telephone service to the US, the first such service to challenge regional Bells.

Cole & Weber

- ***Renovation.*** **We tore down the walls between our Cole & Weber offices in Seattle and Portland this year, and joined forces to work together, pooling resources and talent.**
- ***"Hey, here's my card."*** **We engineered a brand new corporate identity, which reflects who we are and where we're headed. The new look oozes with insight and creative thinking for the next century.**
- ***We're flattered.*** **President Clinton liked our spot for Boeing, "The American Century," so much that he directed his staff to create a campaign film based on the same theme, the same footage and the same beautiful music.**
- ***A site for sore eyes.*** **Happily, Cole & Weber is one of the first advertising agencies to turn interactive into profit. Our work on Silicon Graphics and Nestlé S.A. is recognised internationally. Texas Instruments, our most recent win, can expect more of the same.**

Coley Porter Bell

We completed what we believe is the biggest packaging project ever undertaken in Europe, for retailer Promodès.

In the UK we won Seagram and KJS and also launched a new way of looking at client briefs, Visual Planning.

All clients now complete a performance monitor after a project has been completed. We have yet to receive a negative comment.

CommonHealth USA

- Billings rose 20% to almost $500 million.
- Added 10 major pharmaceutical clients to our portfolio.
- Received 19 new assignments and launched 12 new products.
- Formed The Quantum Group specializing in direct-to-consumer communications.

Conquest

Conquest Italy was nominated as Agency of the Year and awarded the best international campaign (Alfa Romeo cars), best-liked food campaign (Maxibon from Nestlé) and Advertising Grand Prix Publications Italia *for a WWF anti-hunting campaign.*

Einson Freeman

- Won the IBM personal computer account worldwide in partnership with Promotional Campaigns. EFPC therefore became the world's first global promotion agency.
- Leading US promotions executive John Hopper joined as senior partner.
- In US won Nestlé and Dove (Unilever).
- Opened in California and Mexico City.

EWA

Developed the concept of Contact Management Units, designed to manage direct contact between clients and their customers, handling sales support, marketing administration, direct sales, information services and customer services. EWA now has units working in government, education, the motor industry, agriculture, retail and the fmcg sector.

The Futures Group

With the Gartner Group, a Connecticut-based information technology consulting group, we have agreed to collaborate on a number of customised strategic planning projects that will combine TFG's planning expertise with the Gartner Group's broad knowledge of emerging technologies.

The Henley Centre

Following the appointment of Richard Hytner as chief executive and Paul Edwards as deputy chairman the company reorganised into four new teams.

Subsequently, Henley won a major strategic consultancy assignment from General Cable, following a recommendation from sister company J. Walter Thompson.

The production of our new proprietary *Media Futures* program on CD-ROM designed by sister company, Clever Media.

The Grass Roots Group

Succeeded in working with seven out of the top 10 UK financial institutions.

Hill and Knowlton

- *Hill and Knowlton's healthcare unit was chosen by The European Commission to communicate the health benefits of olive oil.*
- *British Telecom consolidated its Asia Pacific public relations requirements at Hill and Knowlton, involving Hong Kong, Singapore, Australia, New Zealand, China and Japan.*
- *Hill and Knowlton US introduced 'matrix' management, creating parity between general managers, core service and practice leaders to provide clients with the best teams for their business.*

J. Walter Thompson Company

Thompson Total Branding, JWT's proprietary interactive strategic planning system is now a key part of all 232 offices worldwide, making global brand communication planning a reality.

JWT added Mazda Europe to its burgeoning Ford business and, in the US, appointed Helayne Spivak to work alongside Allen Thomas as worldwide creative directors.

Launched its most far-reaching and successful integrated marketing effort ever on behalf of De Beers, combining trade promotion, consumer publicity, on-air celebrity promotion, consumer contests with national print and television advertising.

JWT Specialized Communications

No longer JWT Recruitment Advertising, JWT Specialized Communications reflects the company's growing business outside employment communications, in the high-tech, healthcare and 'senior living' sectors.

New business in 1996 included AlliedSignal, Hoffman La Roche and Computer Services Corporation, helping to produce the most successful year in the company's 50-year history.

Organised a great post-summer outing, which fell on the most beautiful day of the year.

Operating company highlights

Mando

Major talent hired in Philip Penlington who was responsible for major new direct client, Weight Watchers.

Attended stimulating WPP Leadership course with like minds from Group companies at London Business School.

Mendoza Dillon & Asociados

Won the Mission Foods and Azteca Milling business.

Metro

Presentations and events company Metro abandoned modesty and created Clever Media, bringing together the company's creative expertise in events, multimedia solutions, videos and selling environments. One of Clever's first accounts was Interface Inc., working alongside sister company BDG/McColl.

The company also opened Metro Ecosse in Edinburgh to service clients in Scotland and the North of England.

Millward Brown International

A recent client satisfaction study reported that 97% of our UK clients said they would recommend the company. 74% said the company was knowledgeable about advertising, its key area.

The company also successfully launched *BrandDynamics*, a new service adding consultancy to research expertise.

Oakley Young

Designed and manufactured shop-in-shops for Motorola, Samsung and Vodafone in 350 Tandy stores, fitted in six weeks.

Set up point of purchase clinic at sister company, Promotional Campaigns Group.

Ogilvy & Mather Direct

- *We won* Reader's Digest *worldwide.*
- *We opened new offices in Kuala Lumpur, Paris, London (teleservices) and Warsaw.*
- *We continued to dominate the prestigious Echo direct marketing awards (O&M now totals 141, next best 31).*

Ogilvy & Mather Worldwide

Some things we're proud of:

- **Brand Stewardship, Ogilvy & Mather's commitment "to be most valued by those who most value brands," continues to strengthen campaigns, win new business, and earn respect from clients around the world.**
- **A robust new business record on both the local and international levels, including significant new worldwide clients such as ITT/Sheraton and Lotus, and important global assignments from existing clients such as Ford, Kodak, and Unilever, among others.**
- **The designation of Ogilvy & Mather Rightford, our South African office and one of the industry's pre-eminent creative agencies, as International Agency of the Year by *Advertising Age* magazine.**
- **Exciting inroads in Africa and the Baltic States (where we established new networks); Southeast Asia (where we added new offices in Vietnam and Sri Lanka); and China, where we celebrated our fifth anniversary, and our advertising leadership position in an emerging market of 1.2 billion consumers.**

Ogilvy Adams & Rinehart

Orchestrated media coverage of the 11th International Conference on AIDS in Vancouver, Canada, attended by more than 15,000 delegates and considered one of the most successful AIDS conferences to date. OA&R served as strategic counsellors to the conference organisers for the year prior to the conference, and managed the media centre which served more than 1,500 reporters.

Pace

- *Presented real estate clients with capability to develop Web sites.*
- *New branch network established.*

Primary Contact

As the UK's leading business-to-business agency (*Campaign* magazine 1996) we have set about forming Europe's leading business-to-business agency network.

Promotional Campaigns Group

Relaunched company as Promotional Campaigns Group with new identity from sister company Coley Porter Bell and upgraded meeting rooms with the aid of Metro Group.

Partnership with Einson Freeman in the US led to IBM appointing first global promotions agency.

RTCdirect

Won new business from US West, Federal Express, Trigon Blue Cross Blue Shield, The Diamond Promotion Service (DPS/De Beers), the United States Mint and IBM.

To help handle this explosion of growth three key appointments were made: managing director Peter Koren joined from J. Walter Thompson Singapore, Becky Chidester was promoted to chief operating officer and John McCracken joined as partner, director of operations from National Direct Marketing Corporation.

Fostered closer working relationship with sister companies – EWA, Einson Freeman, JWT, Eicoff, CommonHealth USA.

Sampson Tyrrell Enterprise

- *Enterprise Identity Group was created in April 1996 bringing together a number of WPP's international design companies to create a world-scale competitor.*
- *A new internal communications consultancy – Banner McBride – was launched.*
- *Sampson Tyrrell Corporate Marketing turned over £1.2 million in its first year.*
- *Somehow or other 10% of Sampson Tyrrell staff found time to conceive or produce babies in 1996!*

Scott Stern

Established itself as a major communications resource for a number of clients.

For the British Airports Authority Scott Stern was appointed to help implement regionally and globally the Authority's *Freedom to Manage* program including a new branded global computer network, *Desktop*, for BAA managers.

Created a 'big picture' solution involving retailer and distributor presentations, point of sale and advertising for Linn Products, an internationally renowned hi-fi and sound reproduction systems company.

WalkerGroup/CNI

Appointed a new president, Patricia Oris, and a new executive vice president Randall Ng.

We earned two great domestic clients back: AT&T and Nieman Marcus.

Research International

- *Established a team of Global Account Directors for six key multinational accounts.*
- *Gained* Investors in People *accreditation in the UK.*
- *Appointed Roger Banks as CEO of the company's fast-growing Asia Pacific network.*
- *Completed an international electronic network linking the company with its clients in more than 40 countries.*

SBG Partners

- We launched our Web site (www.sbg.com) and average 22,000 hits a month. We have responses from prospective clients, but many are looking for product information on packaging projects in our portfolio. One wanted the dosage for an acid blocker, another warranty information on their personal computer for which we did the brand identity. We've had requests for free product samples, wine labels without glue, and collectable tin containers. As a business tool, our site is valuable. As an entertainment medium, it's a daily surprise.
- We introduced a creative process, *SBG Charrette* – a two-day creative work session, with our senior people and our clients' management intensely exploring positioning potentials for their brand.
- We reorganized our management structure with internal promotions to secure the foundation for company leadership for the next decade. New management team initiatives include positioning the firm as '*Partners in Building Brands*', emphasizing our strategic services in brand development in addition to our renowned creative design. Also an aggressive staff training program, a process for recognition of innovation, and a New Media Group are under way.

Simmons

Simmons revenues from custom research grew significantly, reflecting an increase in large scale recontact studies as well as magazine subscriber studies.

The company received *Electronic Media Ratings Council* accreditation for *Study of Media & Markets*, making Simmons the only EMRC accredited print ratings service.

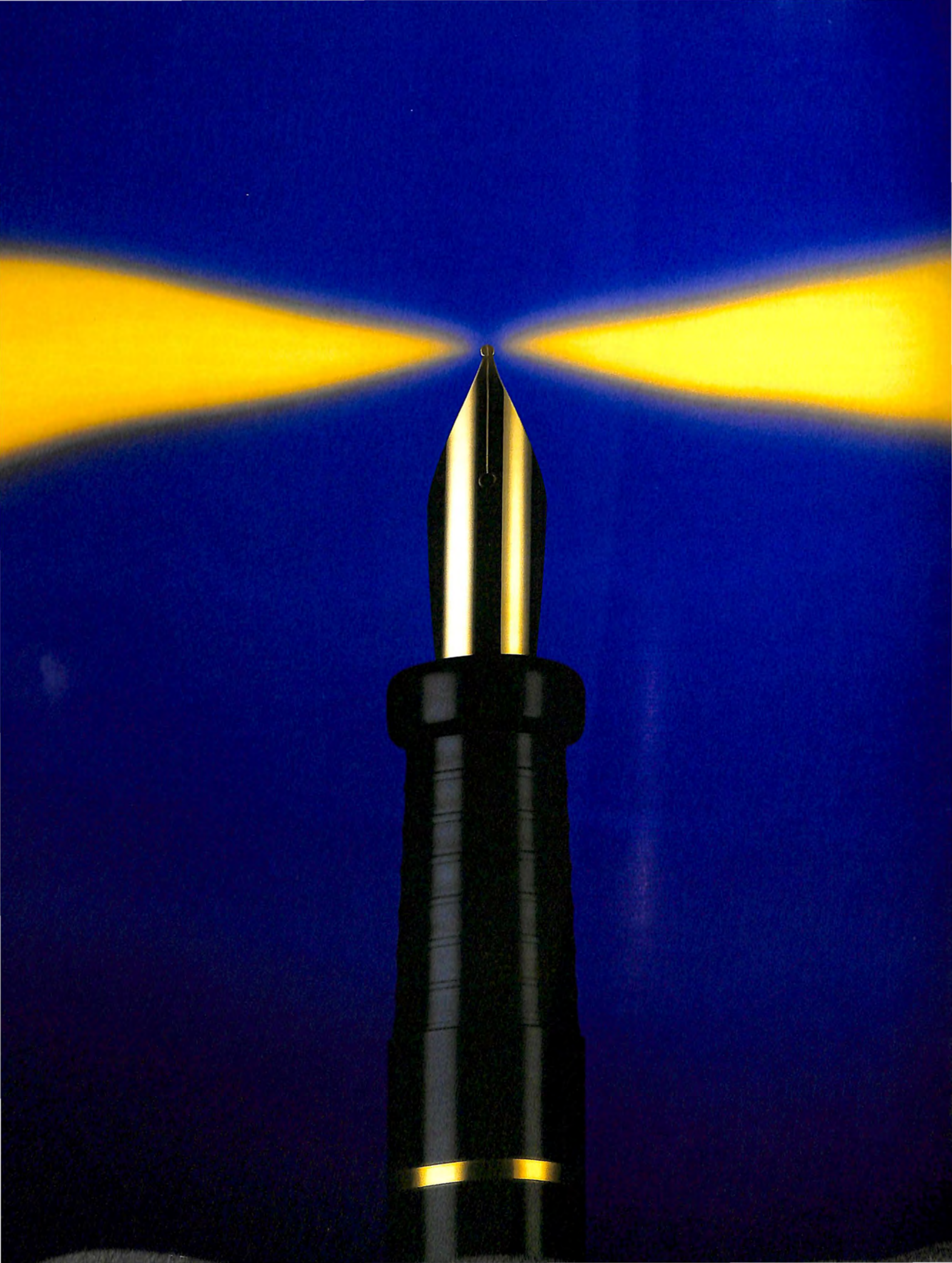
TMC

Launched a new pop singer with our countrywide Citröen Fashion Dance 'n' Music Show *in the UK.*

In 1995, electrical retailer Powerhouse left TMC for a larger competitor agency. In 1996 they came back.

Winona

Successfully launched *Product Simulator*, a research technique aimed at reducing risk and cost at the research and development stage of new product development in packaged goods companies and *Rapid Reach*, a fully automated interactive voice response interviewing system.



Competition... you ain't seen nothing yet

We are in a privileged position. Like management consultants and investment bankers, we can see the dramatic changes that are taking place within industries and within countries. Every day we see the impact of change on a wide variety of clients throughout the world.

Our general impression is that the pace of change is increasing. It may be an uncomfortable thought but if you think that the last decade has seen cut-throat competition, wait for the next one. Moore's Law can be applied to competition as well as microprocessors.

Lower population growth, improved communications and free trade, technology transfer, growing retail power and the consequent blurring of industry boundaries will all heighten competitive activity. Continued stable growth and low price inflation will also stimulate the competitive environment. In these conditions, brand differentiation will become more important – and that's where we come in, *writes Martin Sorrell.*

Before we discuss the wider issues, let's take a look at the trends in our industry...

The top 12 US industries by final dollar sales

US industry	1995 $bn	Rank
Health and medical services	1,070	1
Insurance	655	2
Construction	500	3
Food and related products	498	4
Educational services	490	5
Travel services	430	6
Motor vehicles and parts	320	7
Aerospace	270	8
Communications	251	9
Electronic equipment and components	245	10
Telecommunications services	230	11
Apparel and related goods	160	12
Top 12 total	**5,119**	

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

The top 12 US industries ranked by five-year growth

US industry	1995-2000 % Growth*	Rank
Electronic equipment and components	9.2	1
Telecommunications services	8.8	2
Communications	7.0	3
Travel services	6.7	4
Educational services	6.5	5
Construction	6.2	6
Insurance	6.1	7
Motor vehicles and parts	5.8	8
Food and related products	5.1	9
Aerospace	4.4	10
Health and medical services	4.1	11
Apparel and related goods	2.9	12
Top 12 total	**5.8**	
Nominal GDP	5.5	

*compound annual growth
Sources: Veronis Suhler & Associates, Wilkofsky Gruen Associates, US Department of Commerce

Top 20 advertising markets in 1996

Country/Rank	Population (m)	Adspend ($m)	Adspend per capita ($)	Adspend % of GDP
1 USA	263.0	101,148	384.6	1.32
2 Japan	125.0	45,471	363.8	0.87
3 Germany	81.6	22,977	281.6	1.04
4 UK	58.4	16,456	281.8	1.42
5 France	58.0	10,502	181.1	0.66
6 Brazil	159.2	7,790	48.9	1.41
7 South Korea	44.5	6,995	157.2	1.36
8 Italy	57.2	5,817	101.7	0.51
9 China	1,208.8	5,141	4.3	0.62
10 Spain	39.2	4,889	124.7	0.83
11 Australia	18.1	4,691	259.2	1.26
12 Canada	29.6	4,094	138.3	0.70
13 Taiwan	21.1	3,978	188.5	1.40
14 Mexico	94.8	3,810	40.2	1.10
15 Netherlands	15.5	3,557	228.5	0.88
16 Switzerland	7.0	3,113	444.7	1.01
17 Argentina	35.0	2,717	77.6	0.95
18 Hong Kong	6.2	2,320	374.2	1.44
19 Colombia	35.1	2,188	62.3	2.26
20 Sweden	7.0	1,905	272.1	0.62

Industry overview

The demand for communications services

In 1996 worldwide expenditure on communications services grew 7% to $900 billion (from $840 billion in 1995). The industry ranks amongst the top 10 in the United States, the world's largest industrial nation, and is amongst the fastest growing.

The US market was stimulated by the US Presidential election and the Olympic Games. Europe, particularly Continental Europe, was still affected by the recession of the early 1990s, whilst Asia Pacific and Latin America continued to grow at double-digit rates.

The two biggest segments of the communications services industry (advertising accounting for 40% and promotion about 35%) were worth about $850 billion between them.

In 1997 worldwide expenditure is forecast to continue to grow strongly, but at a slightly slower rate of 5-6%. The US should relax slightly, with Europe (particularly Continental Europe) strengthening, and Asia Pacific and Latin America continuing their strong growth.

In 1998 the pattern should be similar with overall worldwide growth slightly lower at 4-5%. The following two years should be stronger, benefiting from the prospects of the US Presidential election, the millennial Olympics and other events.

Overall worldwide growth should continue at the mid-single-digit level in the 1990s unless inflation accelerates and governments are forced to restrict growth – in which case there would be an initial surge in communications services spending followed by a flattening out.

The two long-term trends in the communications services industry

We founded WPP 11 years ago to capitalise on two long-term trends. First, within the communications services industry, expenditure on information and consultancy, public relations and public affairs and specialist communications is growing faster than advertising expenditure. Why is this? Partly because, in the 1970s and 1980s, demand for advertising outstripped supply – particularly in the case of network television. As a result media pricing grew at a faster rate than general price inflation, and clients began to question the effectiveness of advertising. In the 1990s with increasing media fragmentation, the personalisation of media and one-to-one communication, clients are increasingly committing to information and consultancy, public relations and public affairs and specialist communications.

Secondly, communications services expenditure is growing faster outside the US than inside.

Both these trends have strengthened even more significantly in recent years. But this doesn't mean that if you are in advertising in the US that you should commit hari-kiri. It does, however, mean that the faster growth opportunities

are elsewhere as our clients face increasing competitive pressures in their domestic markets. South Korea (the second largest market in Asia Pacific), China, Indonesia, Malaysia, Mexico, Argentina, Colombia, Peru, Venezuela, Hungary, the Czech Republic, Russia, India and South Africa all offer significant opportunities. Those to come, when political developments permit, will include Myanmar with 45 million people and Cuba with 11 million.

The opportunity is significant as advertising per capita, and as a percentage of GDP, is lower in all these markets. However, growth is likely to be stronger in Asia Pacific as governments are more stable and welcoming and people very energetic, with Latin America a close second due to historically greater instability. If political developments are favourable, Africa and the Middle East could prove more promising than Central and Eastern Europe as political instability and lack of infrastructure dog the latter.

Fear in the short term

The 1990s are very different to the 1980s. The 1980s were characterised by relatively high levels of inflation, high growth of money incomes and prices, and high levels of employment. Historically we were all Keynesians trying to achieve so-called full employment and tolerating relatively high levels of inflation. Today we are all Friedmannites trying to eradicate inflation and tolerating relatively high levels of unemployment.

It will be interesting to see whether in Continental Europe, for example, these economic policies can be maintained. In France and Germany, unemployment is at its highest level since the Second World War. In Spain, 60% of graduates at some universities cannot find jobs. It is difficult to see how governments particularly in front of elections, will be able to maintain anti-inflationary policies. Certainly in Latin America it has been difficult for governments in Argentina, Peru and Mexico to maintain monetarist policies and they have shifted to more populist approaches to attract the electorate.

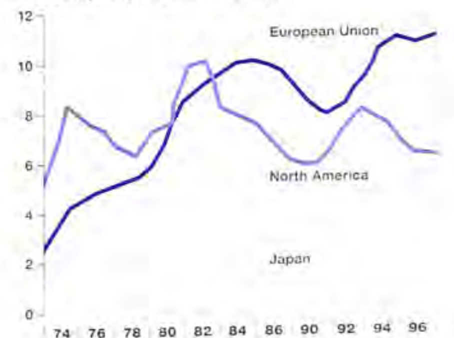
Whatever the outcome, fear of unemployment has affected both consumer and manager, such that communications services expenditure now seems to lag rather than lead the cycle. The consumer has become more concerned about the relationship between price and quality, and has been concentrating on saving rather than spending. The manager is unwilling to take risks, needs more evidence of recovery and confidence, and is only willing to commit after clear evidence of recovery has taken place.

Worldwide marketing services expenditure 1996 ($bn)

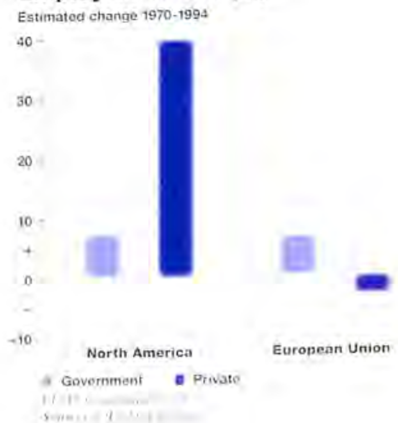
	A	MR	PR&PA	SC	Total
USA	168.6	3.9	15.2	248.3	436.0
UK	16.2	1.4	2.5	35.9	56.0
France	12.0	0.8	0.7	16.7	30.2
Germany	19.5	1.0	0.9	23.9	45.3
Japan	40.8	0.9	3.8	44.4	89.9
ROW	126.0	2.1	2.4	109.0	239.5
Total	383.1	10.1	25.5	478.2	896.9

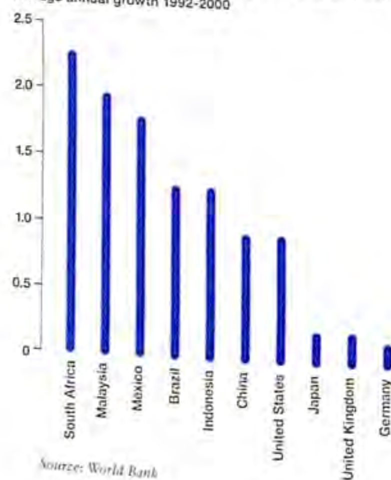
A Advertising **MR** Market research
PR&PA Public relations & public affairs
SC Specialist communications

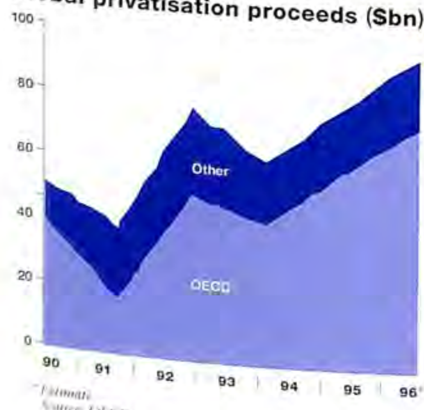
Unemployment rate (%)

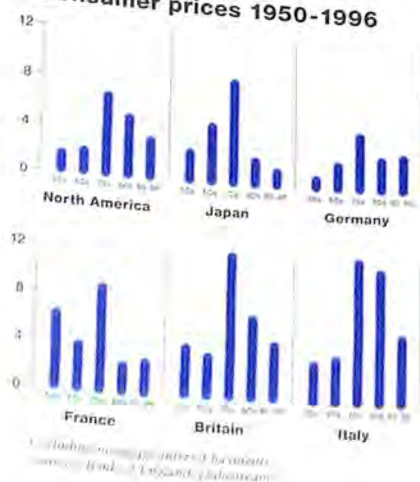


Employment rate (m)









Factors leading to increased competition

Underlying trends

Lower population growth

Most chairmen and chief executives promise their share owners long-term growth rates in profits, earnings per share or cash flow of at least 5-10% per annum. Population growth in almost all countries – particularly in the larger, mature economies – is less than this. So companies can only achieve their stated objectives by taking market share from a competitor.

Improved communications and free trade

Improved access through easier travel and electronic communications have made global competition a reality. However, the single biggest stimulant to our clients' businesses – and hence our own – has been economic liberalisation. This usually involves a pattern of monetary and fiscal restraint, removal of trade barriers, privatisation of state run industries (including pensions) and export-led growth.

This has probably been most marked in Latin America. Chile has always seemed to be pursuing these objectives, but more recently Mexico, Argentina, Peru and Colombia have joined them. As a result (although it is no longer essential for Brazil to flourish for Latin America to grow), the continent's largest country now seems to be building a stronger base by adopting similar economic policies. Even Fidel Castro seems to be thinking along similar lines – as it is rumoured that he consulted former Mexican President Salinas on the privatisation of telecommunications in Cuba.

Stable growth and low inflation

All these trends have been heightened by the relatively more stable, slower, less inflationary growth of the 1990s. In these conditions the effectiveness of manufacturers' strategies are more likely to be exposed as they are less able to pass on inflationary price increases to the consumer. The uncomfortable fact is that we all prefer a small dose of inflation.

Business trends

Technology transfer

Technological advantages evaporate quickly as competitors copy new ideas. Competitive advantages are difficult to maintain even in what seem to be technologically sophisticated industries; computers, telecommunications and automobiles – which seem to be complex products – share the same characteristics as detergents, foods and credit cards. Product life cycles shorten and brand cycles lengthen. Lead times for the introduction of products shorten, product testing and lengthy consumer research are luxuries.

Life is further complicated by the tendency for hitherto fierce competitors to form strategic alliances – for example, US and Japanese companies in the automobile and photographic industries. In these market conditions it is more important to take calculated risks and, as the chance of failure is greater, not to punish it too severely.

Growing retail power

Control of the channels of distribution is being increasingly concentrated in the hands of a small number of retailers. For example, in food retailing in the UK four companies control over half of the market.

Retailers have also reinforced their position by developing their own products – store labels or own brands. Some years ago these were not competitively significant as they tended to be poor quality and cheap, not a dissimilar situation to the way the consumer used to think of Japanese or Far Eastern merchandise. In the last economic cycle retailers have developed the quality of their store brands significantly, and indeed have introduced several brands at different price and quality points, so that in many cases store brands have become synonymous with the highest quality.

In the high-inflationary 1980s manufacturers compounded the problem by predatory pricing which increased the price differential between manufacturer brands and own label. In the 1990s this has served to enhance the brand image of retailer own-labels. More recently, it has resulted in manufacturers making substantial price cuts in categories such as cigarettes, cereals and other foods.

Interestingly, the new electronic media, which have a direct relationship with the consumer, offer manufacturers the opportunity of a direct dialogue. This is particularly important given that 50% of a manufacturer's costs can be in distribution. However it is the retailers who have tended to grasp this opportunity more aggressively – making investments in home shopping and retail television channels. Perhaps this is because the manufacturers have become too trade-focused, leaving retailers (who, after all, have more direct day-to-day contact with the consumer) to focus on customer needs.

Increasingly we may be witnessing the growth of new virtual manufacturers who exploit the new technologies and direct relationships with the consumer. An example would be the personal computer industry where Dell and Gateway 2000 supply the business and home markets by telephone whilst maintaining little or no inventory.

New competitors

No product or service category is protected from competition. This trend is not confined to packaged goods. Brands that consumers trust are invading new categories. Who would have thought that in our own industry a small Hollywood-based talent agency would have out-presented McCann-Erickson for the Coca-Cola account or that a film producer like Spike Lee would have formed an agency with DDB Needham? Or that Swatch would join Mercedes Benz in the

Growth of retail power

Top 25 retailers worldwide

Rank/Company	Sales 1995 ($bn)	Stores 1995 (No)	CAGR Sales 1993-95 (%)	CAGR Stores 1993-95 (%)
1 Wal-Mart Stores *US*	93.6	2,943	17.9	9.3
2 Metro Group *Germany/Switzerland*	43.4	3,283	6.3	9.3
3 Ito Yokado *Japan*	43.1	13,041	3.2	2.3
4 Sears Roebuck *US*	34.9	4,025	7.1	9.6
5 Tengelmann *Germany*	34.5	7,391	0.7	4.3
6 Kmart *US*	34.4	2,477	1.6	-3.6
7 Rewe AG *Germany*	30.0	9,095	3.3	3.5
8 Carrefour *France*	29.5	1,016	7.8	25.3
9 Daiei *Japan*	28.5	7,717	9.2	11.2
10 Intermarche *France*	26.8	3,471	9.2	9.6
11 Leclerc *France*	26.7	684	8.2	19.1
12 KKR *US*	24.3	1,525	2.1	14.3
13 Kroger *US*	23.9	2,144	3.4	-1.5
14 Dayton Hudson *US*	23.5	1,029	10.6	7.3
15 Edeka/AVA Group *Germany*	21.8	11,118	2.8	-2.4
16 Aldi Group *Germany*	21.6	4,476	10.4	14.2
17 JC Penney *US*	20.6	2,448	4.1	3.0
18 Promodès *France*	20.5	4,950	5.6	2.9
19 Jusco *Japan*	20.3	3,389	6.7	25.7
20 J Sainsbury *UK*	19.6	783	9.2	23.4
21 Tesco *UK*	18.8	734	18.6	18.9
22 Ahold *Netherlands*	18.4	2,437	4.5	6.4
23 American Stores *US*	18.3	818	-1.2	-4.9
24 PriceCostco *US*	17.9	250	8.7	6.4
25 Karstadt/Hertie Group *Germany*	16.8	490	-2.2	27

Source: Management Ventures

Market share of UK food retailers (%)

Retailer	%
Tesco	17.0
J Sainsbury	14.4
Asda	9.0
Safeway	8.4
Kwik Save	4.2
Somerfield	4.1
Wm. Morrison	2.9
Iceland	1.9

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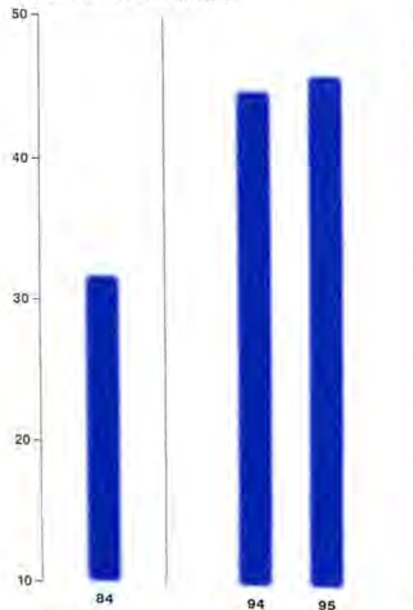
Internationalisation of multinational companies

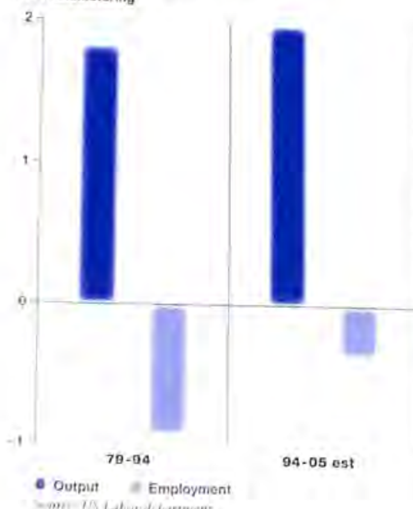
% of sales outside home markets



Source: The data shown 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

Output versus jobs (%)

US manufacturing



Source: US Labor department

automobile business? Or that Samsung would enter the automobile business too? Or that Virgin and Marks & Spencer would enter the financial services business? Or that Virgin would compete with Coke and Pepsi in the soft drinks business or with IDV, Distillers and Seagram in the spirits business?

Geographical expansion

Given this background it is easy to see why our clients have expanded their operations geographically. However there is still a long way to go. Some 30 years ago most US companies believed they were multinational. Still today the average US multinational company only has 20% of its sales outside the US. The typical company is not Coca-Cola with 80% of its sales outside the US. It is more like Pepsi-Cola with 80% of its sales in the US.

No wonder then that our business is expanding so rapidly in Asia Pacific and Latin America. Even during the recession of the early 1990s double-digit growth continued. Even in the mid-1990s, when the mature, slower-growth markets recovered, the emerging, faster-growth markets were growing almost twice as fast. Generally the US and Western European economies should grow at 2-3%, with the world averaging 3-4%, and Asia Pacific and Latin America 6-7%. Central and Eastern Europe and Africa and the Middle East will increasingly come into the picture, particularly if the political climate is favourable.

Client strategies

Our clients have responded to these trends in three ways, which seem to vary with the state of the economic cycle.

Cost cutting

Particularly at the downturn of an economic cycle, increased attention is paid to reducing costs. With companies probably bloated by the previous cycle, there are major opportunities for focusing the business and removing peripheral activities. With the development of information technology there will be substantially increased opportunities for zero-based budgeting, total quality management, process re-engineering, delayering, down-sizing, out-sourcing or whatever technique becomes fashionable.

Competitive pressure will continue to demand that costs are scrutinised. In addition it is clear that old hierarchical organisational structures are inappropriate given new technological developments. These encourage a network-type structure.

However, as the downturn in the economic cycle starts to bottom out, major cost reductions become more difficult to achieve, and thoughts turn to ways of adding and generating revenues.

Acquisitions

As concerns about costs start to recede, as quantum changes become more difficult (and perhaps as a boredom factor starts to operate), chairmen and chief executives turn their minds to acquisitions as a means of expansion. This is usually stimulated by higher stock market valuations and lower costs of capital. For example in the last cycle, the period 1991 to 1992 saw significant cost cutting, while 1993 onwards saw a significant increase in acquisition activity.

Surprisingly, acquisition pricing does not seem to vary significantly at any stage of the economic cycle. Valuations in the packaged goods sector, for example, seem to remain significantly above revenues, and price earnings multiples paid remain in the high double-digits or 20s. This seems to reflect the scarcity of world-class brands and the difficulty of developing them.

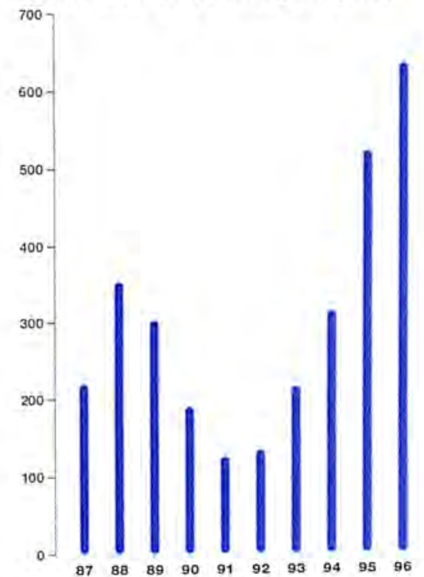
It's the revenue, stupid

At the top of the cycle more and more attention seems to be being paid to organic growth. Stock markets on both sides of the Atlantic seem to be focusing on top line revenue growth, and awarding higher valuations to companies that grow organically either by developing new product or service lines or expanding geographically.

Somewhat amusingly this has led to the development of a number of new management books and theories which are encouraging companies to focus on revenues rather than costs. To some extent this simplistic academic response seems to be following the state of the economic cycle and may go some way to explaining why advertising expenditures started to pick up in 1994.

Clearly with differentiation becoming increasingly difficult, and (for whatever reason) greater emphasis being placed on revenue growth, the role of communications services will become more and more important. Revenue growth can be stimulated by geographic expansion. Manufacturers will continue to innovate in order to gain a technological advantage, no matter how transitory. Service will become an increasingly important discriminator, especially with the development of direct marketing and its protegé, the new interactive media. A one-to-one personal relationship with the consumer will enable marketing companies to differentiate themselves more effectively and develop a better understanding of the consumer.

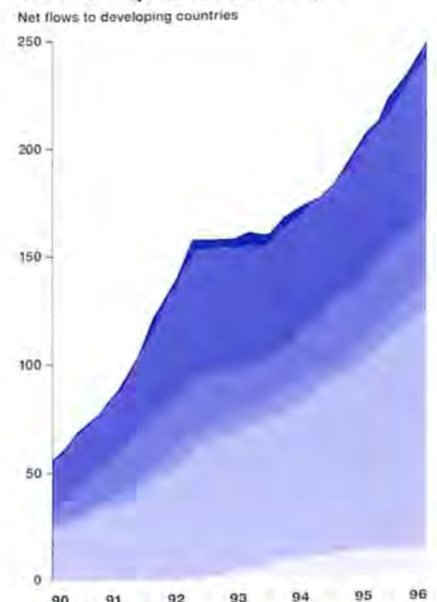
Total value of US mergers ($bn)



Source: Securities Data Company

Private capital flows ($bn)

Net flows to developing countries



Source: World Bank

Opportunities for the communications services industries (which can become threats if ignored)

I would like to try and group these in relation to the four key elements of our mission statement: talent, world, partnership and profit.

Talent

The right structure

The communications services industry is perceived as being modern, revolutionary and on the cutting edge of progress. Nothing could be further from the truth. We are probably more conservative than accountants, investment bankers, lawyers or even actuaries.

Some of our specialist communications companies, which are of a more recent vintage, may have flatter, more process-driven organisational structures, but our larger, more well-established units have gone through little or no significant organisational change in decades. This despite the fact that most, if not all, of our major national and multinational clients are continually going through significant strategic and structural change. Most communications services companies remain rooted in the past with vertical, functionally driven, silo-like structures. Many industries have seen radical reductions of headcount, with some companies reducing the number of their people by as much as 50%. Our industry squeals with displeasure if the number falls by as much as 5%.

The strengths of well-established agencies include their institutional qualities, but these can be their Achilles heel if they are not prepared to even consider organisational change. Sadly, human nature being what it is, change tends to only happen after disaster. The rule seems to be: if it ain't broke, don't fix it.

Advertising agency structures, for example, remain very much as they were 50 years ago. The only change in the organagram is the change of name of the editorial publicity department to the creative department. Rooted in geography first, function second and client third, advertising agencies remain functionally driven, with a strategic planning department, dealing with an account handling department, dealing with a creative department, dealing with a media department, dealing with a financial department and on and on. The opportunities for miscommunication, confused briefing and the development of turf and territorial barriers are considerable.

However, one of our strengths (or is it our instinct for survival?) is that we do observe our clients – and the strategic and structural changes they are making – very closely. Probably the single most common feature among all our clients is their desire to co-ordinate their functional and geographic activities more effectively. In essence they are seeking economies of knowledge or co-ordination, not economies of scale, and are seeking to avoid constantly reinventing the wheel. This is not necessarily incompatible with modern preferences for empowerment, decentralisation or autonomy. There is simply no point in not benefiting from sharing knowledge – particularly when modern technology enables you to do this so effectively.

In light of this, agencies will have to adapt their organisational structures to more horizontally, client-driven structures. These changes will require the skills and qualities of long-forgotten organisational and methods departments, as it will require a rigorous analysis of the process by which creative work is developed, approved and implemented. Once the process has been analysed, the appropriate organisational structure can be developed.

Some horizontal or 'cluster'-type structures have been tried in mature markets and have been abandoned. This may be due to the fact that the processes involved had not been analysed sufficiently beforehand. Ironically, in the faster growing markets of the Far East and South America (in Bangkok, Manila and Buenos Aires, for example) similar structures have been tried successfully.

Within WPP significant progress is being made towards such structural change, with 14 test beds established in 1996 and a further seven in 1997. These have been selected from the group's 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 selected three worldwide client units or geographic profit centres to improve the process and profit analysis, and then the organisational structure. The objective is better work, faster.

A pleasing aspect of these initiatives is that a number of others have been started as a result. For example, in Brussels 10 Ogilvy units have grouped together and – using the group's office design capabilities at BDG/McColl – have designed the 'office of the future'. Essentially they have created an open plan structure, with no offices and movable partitions to enable better communication and expansion.

To some this may seem a long way away from the creative process. However, unless we analyse our revenue streams more carefully, our resource allocation, our processes and our organisational structures, we will not be a position to respond to the increasingly competitive environment that our clients face.

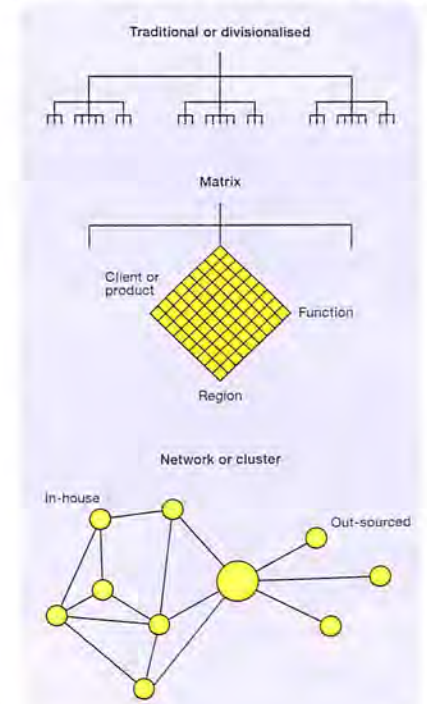
The right size

Big or small

Closely related to the issue of structure is the question of size. The common perception is that as organisations grow in size they become unwieldy, unresponsive and lacking in creativity. In light of this how will the advertising industry develop? Will large agencies with their worldwide resources and co-ordination strengths dominate the market? Or will the smaller agencies with their perceived creative strength, flexibility and responsiveness, reinforced by new technology, outmanoeuvre their larger competitors? Or will mid-sized agencies provide a happy compromise?

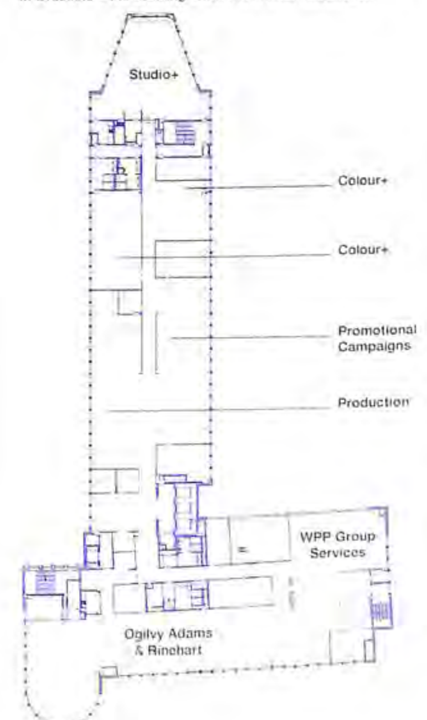
For the moment the answer seems to be that there will be increased polarisation at both ends of the market. The larger agencies continue to increase their market share as clients consolidate their agency rosters. The latest consolidation trend started with IBM moving from 40 agencies to one –

Changing organisational structures: the effect of technology

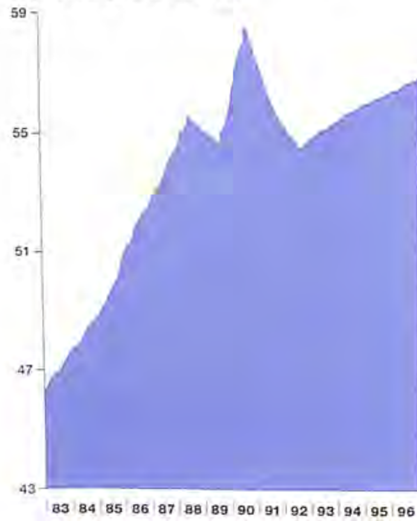


Borderless office:

10 Ogilvy companies regrouped into one visionary building in Brussels – the drawing shows first floor workspace



Market share of *Advertising Age* top 10 agencies (%)



Source: *Advertising Age*

Increased consolidation

Ownership of top 25 US agency brands (ranked by worldwide income)

Parent company	Brands in top 10	Brands in top 25	Agencies
Interpublic	2	5	McCann-Erickson Worldwide
			Ammirati Puris Lintas
			Lowe & Partners/SMS
			Campbell Mithun Esty
			CKS Group
Omnicom	2	3	BBDO Worldwide
			DDB Needham Worldwide
			TBWA Chiat/Day
WPP	2	3	J. Walter Thompson Company
			Ogilvy & Mather Worldwide
			CommonHealth USA
Others	4	14	Y&R Advertising
			Grey Advertising
			Leo Burnett Company
			Foote, Cone & Belding
			Saatchi & Saatchi Advertising
			D'Arcy Masius Benson & Bowles
			Bates Worldwide
			Bozell Worldwide
			Carlson Marketing Group
			TMP Worldwide
			Gage Marketing Group
			Wells Rich Greene BDDP
			DIMAC Direct
			Bronner Slosberg Humphrey

Ogilvy & Mather Worldwide – in the largest account switch in advertising history. Similar consolidations followed involving De Beers, Eastman Kodak, SmithKline Beecham and Kimberly-Clark/Scott Paper (all good for us), Bayer, Reckitt & Colman and Colgate-Palmolive (which did not affect us) and S.C. Johnson and Nabisco (bad for us).

At the same time the larger agencies are consolidating their market share through acquisition. Mid-size agencies like Chiat Day, TBWA, Ammirati & Puris and Ketchum have all fallen to IPG and Omnicom, despite idiosyncratic and iconoclastic owners who always promised never to succumb. BDDP has formed a larger mid-sized, heavily leveraged unit while N.W. Ayer was acquired by another top 10 agency, DMB&B. Clearly some of these transactions were driven by financial motivations, but just as clearly these mid-sized agencies were unable to compete for major accounts because they lacked resources on a worldwide scale.

At the smaller end of the scale, in a healthy Darwinian-type process, agencies continue to be formed as individuals break away to start their own businesses. But even here there is increasing anxiety over the need to align with major international resource in order to compete for significant international business. Even creative hot shops such as Weiden & Kennedy, M & C Saatchi and Kirschenbaum & Bond have sought international affiliations which will give them the global resource they need whilst they retain their autonomy and independence.

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 shares, there is an oligopoly of international advertising agencies capable of handling multinational client business. This is most clearly seen when a major multinational piece of business is reviewed – as in the cases of Mars and Bristol-Myers, where few contenders could be developed, given client conflict policies.

At the other end of the spectrum Coca-Cola continues to splinter its agency roster. Using over 30 agencies, the client develops the strategy and calls on each agency to perform the function of an idea factory. The roles of strategic thinking and creative execution are left to the client.

In essence big agencies have to learn to behave like small ones, acting more responsively and emphasising creativity, whilst small agencies have to develop greater levels of resources and co-ordination to offer worldwide access to clients. The issues facing the larger agencies are no different to the issues facing their larger clients as they in turn try to stimulate more aggressive and entrepreneurial management.

A further surge of consolidation – new partners for the dance

In the short term there may well be significant shifts in the advertising industry's competitive structure. Young & Rubicam has recently sold a significant shareholding to a West Coast investment firm. It will probably only be able to secure a 30% compound rate of return by going to the market.

Uncharacteristically, Leo Burnett has made sudden management changes purportedly because of financial pressures. True North has restructured to acquire another network but following its split with Publicis, this leaves two significant agencies looking to build worldwide networks. DMB&B has also become The MacManus Group and restructured to build another network. Bozell is looking to merge with another partner and Havas Advertising's controlling shareholders are uncertain concerning the logic of the link between media ownership and communications services. Finally, Cordiant has disbanded into three separate businesses and rumours abound about their independence. All in all, a recipe for significant change.

The right people

The strength of any professional service business will depend on who it recruits, trains and develops. Many people in the communications services industry complain that too few talented young people are attracted to the industry. This is not a new complaint. David Ogilvy, when he founded Ogilvy over 40 years ago, remarked how successful his friend Marvin Bower had been at McKinsey in consistently attracting the best young first- and second-degree graduates and that he and his competitors had not been as successful.

The reason why the communications services industry has found it difficult to attract the best talent is that it does not try hard enough – certainly not as hard as the leading management consultancies and investment bankers. Forty per cent of many graduating classes are going into these professions (more than 50% at Harvard Business School this year). The most senior personnel at McKinsey, Goldman Sachs and Arthur Andersen are intimately involved in the recruitment process, wining and dining the prospective talent (not surprising when you think that Andersen is having to recruit two Booz Allen's every year). In most communications services businesses the responsibility for the recruitment effort is delegated – strange, when you consider that the biggest investment made by such firms is in human capital and that senior management will be intimately involved in making decisions about acquisitions and capital expenditure.

Furthermore, in management consultancies the newly recruited talent is thrown headfirst into the business. Bright, young people who are able to take on the responsibility are given their head, and not forced to endure lengthy apprenticeships. All too often senior people in communications services businesses tend to be very protective of their turf.

The communications services industry has a lot to offer. First and foremost it is fun – an extremely enjoyable and agreeable way of earning a living. In addition, along with the management consultancy and investment banking industries it offers unparalleled exposure to a wide range of industries throughout the world. At the centre of major strategic and structural change at our clients, we see the impact of competitive activity. Its excitement lies in its variety and ability to influence clients at the highest levels. The challenge is to communicate this excitement and variety to others through programs such as the WPP Fellowships.

Client consolidations

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

Source: Trade press

European business graduates' choice of employer

1	McKinsey & Company
2	Boston Consulting Group
3	Andersen Consulting
4	Procter & Gamble
5	Nestlé
6	Unilever
7	Goldman Sachs
8	J.P. Morgan
9	Microsoft
10	Merrill Lynch

Source: The European Graduate Survey

World

The new media – will they really make a difference?

Sometimes it is better to travel than to arrive. The early investments in the so-called new interactive media exemplify this. Early initial public offerings soared to stratospheric multiples of revenues; losses were valued more highly than profits; and then, as the supply of issues increased, reality set in. After this initial euphoria it is easier to judge the potential impact of these so-called new media.

Interactive media are in reality a subset of direct marketing, which is nothing new. When David Ogilvy founded his agency, he realised the importance of the development of one-to-one communication and the personalisation of messages. Hence today Ogilvy & Mather Direct is the leading direct marketing brand throughout the world.

You could argue that approximately 80% of all newspaper advertising is interactive in some respect, whether it's display advertising with a phone number or coupon, or classified advertising. So no, interactive advertising is not new. What is new is the technology and its power and effectiveness in reaching consumers in a targeted way.

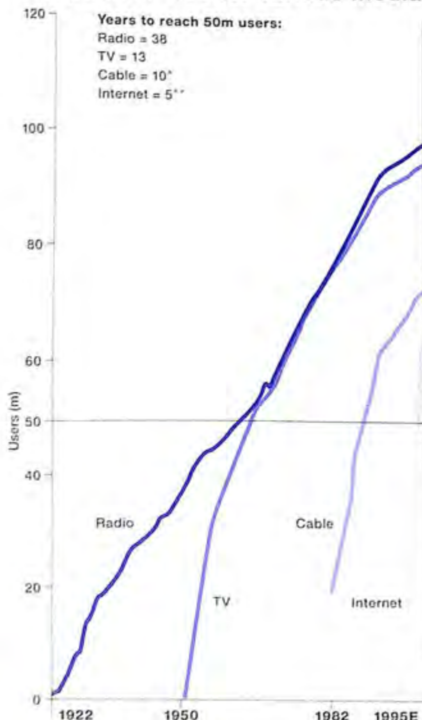
Interactive advertising in 1995 totalled about $25 million in the US and probably $50 million worldwide. In 1996, it probably totalled $300 million in the US and $600 million across the world. By 2000, according to some forecasts, it might total $2 billion in the US – still small in contrast to $300 billion of communications services expenditure currently in the US. There are several problems hindering growth of the medium.

First, traditional media are evaluated by cost per thousand. The new media are much more effective in reaching a defined audience. As a result, effective cost per thousand will become a much more relevant measure.

Secondly, communications services businesses tend to be run by late forty or fifty year olds (like me) who, although they may have a well developed understanding of the new technology, are not naturally at ease with it and resist change, particularly if things are going well. It will be the next generation of management who really come to grips with it and with the opportunities it presents to reach consumers directly. (But bear in mind, I'm only talking about two or three five-year plans into the future.)

Finally, most of the new technological thinking originates in the media departments of advertising agencies, not in the creative departments.

Adoption curves for various media



Source: Morgan Stanley Technology Research
E = Morgan Stanley Research Estimate
**Launch of HBO in 1976 is used as estimate for the beginning of cable as an entertainment/advertising medium*
***Morgan Stanley Technology Research estimate*

There is already significant clutter on the Internet which more than rivals the clutter on network television. Clearly the creative community will have to wrestle with the opportunities presented and offer arresting solutions to gain consumer attention.

Conflicting media trends – the need for media power and the co-ordination of media and creative

Every week sees further concentration of media ownership on a global basis. Not just the ubiquitous and strategically focused Mr Murdoch, but Disney and ABC, Time Warner and Turner, and Westinghouse, CBS and Infinity. And not just in the mature slow growth economies, but in the faster growing emerging markets, with Azcarraga, Marinho, Malone and Murdoch, or Hughes in Latin America.

As a result we are seeing spectacular concentrations of monopoly media power. For example, in the US, Westinghouse controls close to some 50%-70% of regional radio markets. Similarly in the UK, Carlton, Granada and United control 70% of network TV sales. When this increasing control is combined with strong economic conditions the impact on media pricing can be severe. In the US and the UK over the last two or three years television media price inflation has been double-digit whilst general price inflation has been only around 3%. For advertisers like Procter & Gamble and Unilever who spend $3-4 billion on advertising a year this is equivalent to losing $200-300 million in efficiency each year. Clients would never accept other 'suppliers' exerting similar monopolistic influence. If labour or capital threatened to increase their real price by 7% or so each year, they would be shown the door.

The deterioration in effectiveness has been heightened by the uncertainty surrounding the quality of traditional methods of audience measurement and the degradation of television audiences in particular by media fragmentation.

There is a solution to this: the concentration of media buying power to counterbalance the selling points – not necessarily in an antagonistic way, but by harnessing the constructive opportunities of programming, sponsorship, syndication and barter, and most importantly media research. In addition, the media owners themselves are looking for greater global coverage and are willing to trade-off share or modify rates in mature markets for share or enhanced rates in the emerging markets. Clearly the ability to exploit these opportunities will depend on how effective media owners and agencies are in developing co-ordinated worldwide structures. It is most likely that Murdoch or Disney will be able to do so, being more centrally driven and entrepreneurial companies. Time Warner and Turner is a more intriguing case, whose long-term success may depend on the ability of one faction or another to exert control.

Given this background it is not surprising that increased focus has developed on media buying with the growth of media independents like Carat and CIA, or buying clubs between competitive agencies such as The Media Partnership, or agency group alliances such as the one between J. Walter Thompson Company

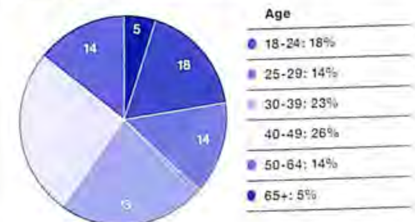
Growth of interactive promotion ($bn)

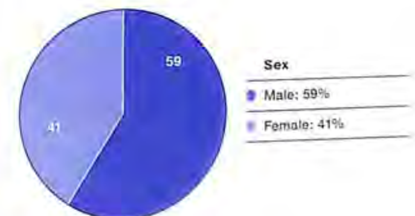
	1994	1995	Change
Premium incentives	20.0	20.8	4.0%
Point-of-purchase displays	11.1	12.0	8.3%
Coupons	7.0	7.0	-0.6%
Sponsored events	4.3	4.7	10.6%
Interactive	1.1	1.5	36.8%
Promotion agency fees	0.8	1.0	20.0%
In-store marketing	0.8	1.0	19.4%
Sampling	0.7	0.8	9.9%
Other	19.8	21.2	7.2%
Total	65.7	70.0	6.7%

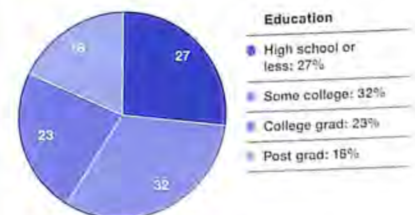
Source: West End Research

Who's on the Web (%)

Demographics of Internet/World Wide Web users

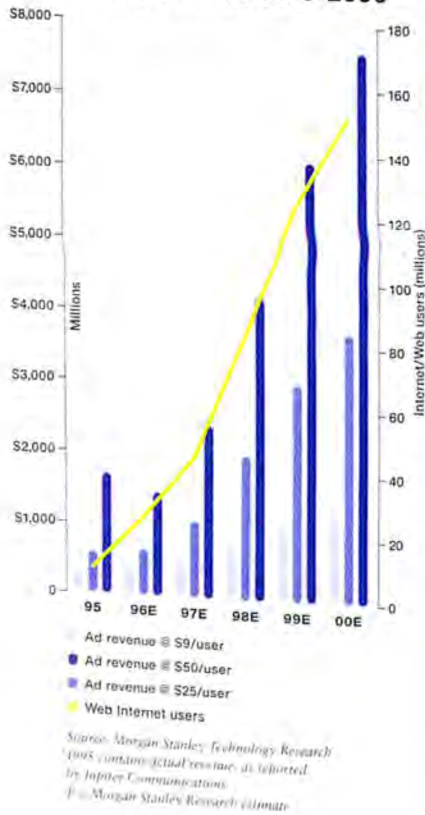






Source: Louis Harris & Associates/Baruch College

Estimated Web users vs advertising revenue 1995-2000*



Source: Morgan Stanley Technology Research
1995 contains actual revenue as reported by Jupiter Communications
E = Morgan Stanley Research estimate

Top five market research firms worldwide

Rank/Group	Brands	Revenues ($m)
1 D&B Marketing Information	A C Nielsen	1,286
	Cognizant	1,102
		2,388
2 Kantar	Research International	233
	Millward Brown International	137
	MRB Group	63
		433
3 IRI		400
4 GfK		311
5 Sofres		252

and Ogilvy & Mather Worldwide. However, some of this preoccupation with media pricing may be driven too much by short-term cost consciousness. Media fragmentation in television, newspapers, magazines and radio is increasing significantly. As a result creative messages have to be carefully crafted across a multiplicity of media outlets. The need for co-ordination between the creative and media functions will therefore increase and the demand for integrated approaches intensify. Not an easy situation to manage.

Market research and corporate identity go global

All of us look for, or worry about quantum shifts in our businesses. If we examine the communications services industry, probably the single biggest change in the industry is the globalisation of market research. As a result the industry has grown rapidly, in the double-digit range, even during the recession of the early 1990s. Kantar, WPP's internal market research parent company, has grown its relationships with most of its top 10 clients from one or two countries two or three years ago to 30 or 40 countries now.

There may be a number of reasons for this. All clients in their quest for growth are expanding their businesses geographically and looking for common languages to compare and contrast experience. Effectively they are looking for economies of knowledge or learning across geographical boundaries. As competition intensifies and differentiation of products and services becomes even more difficult, intuitive decision making in turn becomes more complicated and decision makers seek more data. Even the most entrepreneurial are thinking this way. Finally, as cost pressures have intensified, many companies have radically reduced or restructured their internal market research departments and out-sourced this capability. (This may not be in clients' best interests, as in the pursuit of headcount reduction they may be jettisoning a core competence or a competence that could give them a competitive advantage.)

In the next few years the market research industry has a number of significant opportunities for even greater growth. To date, many senior managers feel that research results and data are gathered too slowly and are too complicated – often results are available only after the problem itself has changed. The new technologies and media will enable faster sample responses, and as a result, the commercial usefulness and effectiveness of the data will increase significantly.

As direct marketing grows in importance, database management and mining will become more important and the boundaries between direct marketing and market research will become blurred. The two industries will merge.

Market research will have to move up the value chain and into the chief executive's office with the development of higher value added products. An example of this would be Millward Brown's *BrandDynamics* which measures brand value and the impact of changes in the perception of a brand in market share and volume and hence dollars and cents.

Finally, as media buying and selling points grow in size there will be a major opportunity to develop proprietary media research products. These will be used to analyse the increasingly complex questions of media selection.

A similar change seems to be engulfing the corporate identity business. As companies expand geographically they seek the development of common identities. As worldwide mergers and acquisitions take place, clients seek to maximise internal opportunities for growth by developing common identities and building common approaches. As differentiation at the product or service level becomes more difficult, corporate brands will become more and more important to consumers. They will increasingly buy brands, or brands produced by companies which they trust. Hence corporate brands become more important. WPP's response to this is the creation of the global Enterprise Identity Group which unites five corporate identity units in San Francisco, New York, London, Hong Kong and Taipei.

Top global identity firms

Rank/Group	Worldwide fee income	Worldwide staff
1 Enterprise Identity Group	£64m	355
2 Landor Associates	£41m	465
3 RPA	£28m	140
4 Cambridge Consultants	£27m	615
5 Interbrand	£24m	356
6 Siegel & Gale	£20m	187
7 Fitch	£17m	300
8 Imagination	£16m	219
9 Havas Group (inc Conran Design Group)	£15m	161
10 Minale Tattersfield	£12m	175

Source: Design Week

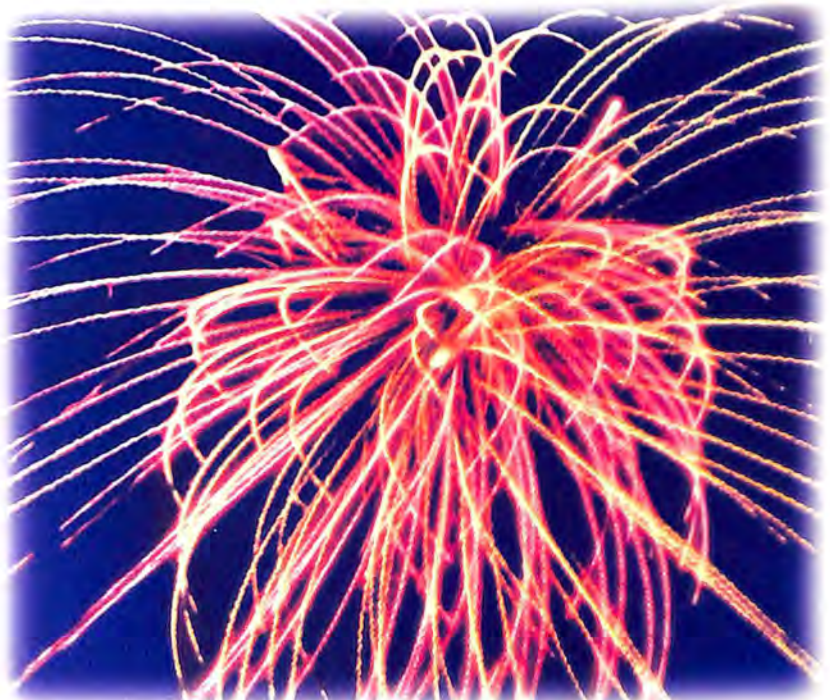
Partnership

Moving up the value chain

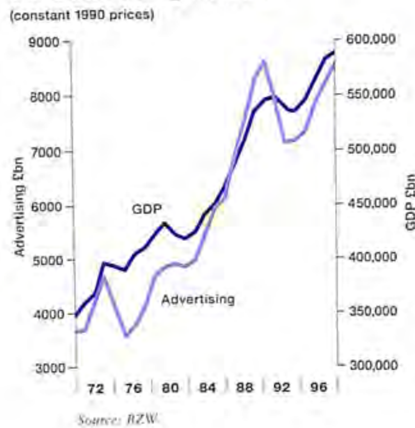
Unfortunately, as a result of competitive pressures, the communications services industry is becoming more and more executional – pushed down the value chain. Creative hip-shooting to solve marketing problems has become more important than strategic brand development.

At the same time, management consultancies seem to have exhausted their opportunities on the cost side of their clients' businesses – in business process re-engineering, delayering, out-sourcing and all the other buzz-word driven areas – and are now starting to examine the revenue side. Realising that all business strategy is marketing strategy, starting with the consumer and working backwards, they have begun to target the areas of brand-building and the more 'touchy-feely' areas of marketing. In addition, they are seeking to advise clients on the appropriate size and disposition of their marketing budgets.

This represents a real opportunity for communications services businesses to move up the value chain and develop even stronger strategic relationships. This can be done by developing the strategic capabilities that exist at the parent or operating company level and recruiting additional strategic marketing talent. Or it can be achieved by acquisition, although the precedents are not particularly auspicious. Or it could be achieved by joint venture or strategic alliance with suitable consulting partners who often seem to lack a fundamental appreciation and understanding of the more intangible marketing arts.

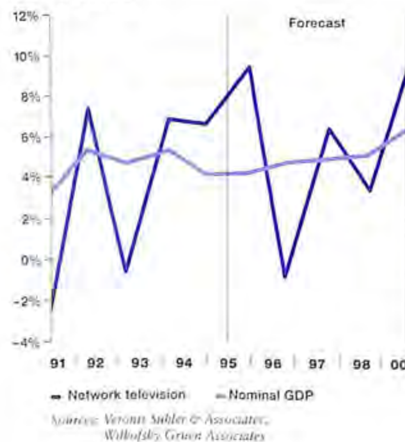


UK advertising vs GDP
(constant 1990 prices)



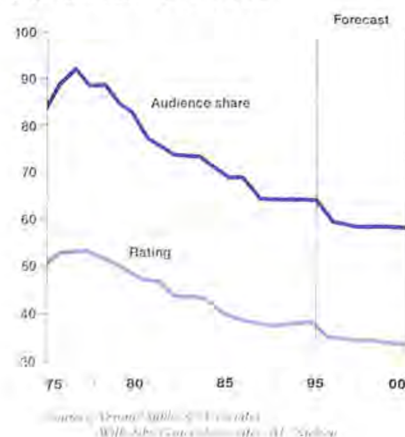
Source: BZW

US network television advertising spending and nominal GDP growth 1991-2000



Sources: Veronis Suhler & Associates, Wilkofsky Gruen Associates

US network prime-time ratings and shares 1975-1999



Profit

How we are paid

Fee-based remuneration has certainly increased over the last 10 years. In the case of WPP it amounts to about 30% of advertising income, and almost all of our information and consultancy, public relations and public affairs and specialist communications income. As we are in the business of selling and managing time this is appropriate.

However, over the past few years there have been major re-negotiations with many large advertising clients such as Kraft Foods, Nestlé and Unilever which have retained the commission system and resulted in general levels of commission of 13% on gross (over 15% on net) with media buying accounting for 1.5% to 2%. Success commissions are added resulting in a total of as much as 17% of gross, which are based on the achievement of client profitability, market share or sales targets. These remuneration structures probably reflect client appreciation of the difficulties of differentiating their products and the relative scarcity of major multinational agencies.

This also seems to have led to a gradual weakening in the attitude of clients to conflict. This is particularly so as clients wrestle with global growth, mergers, acquisitions and joint ventures. Both Mars and Procter & Gamble, for example, have modified hitherto rigid approaches.

The message from the world's biggest advertiser

As the world's biggest advertiser, it is interesting to examine how Procter & Gamble is behaving. A couple of years ago – you will probably remember – rumours circulated that Procter was poised to drastically reduce its advertising expenditure. This hasn't happened. It might be instructive to see why.

In the high inflation 1980s it was relatively easy to pass on substantial price increases to the consumer who was receiving substantial increases in money wages. At the same time retailers' own store or private label brands provided relatively low quality alternatives. Manufacturers also sought greater leverage by extending or stretching their brands through line extensions or new product introductions.

In the lower-inflation, more stable-growth, higher-unemployment 1990s, this strategy no longer works. The consumer is worried about unemployment and is unwilling to pay a significant premium (which can be as high as 50%) for branded goods. Retailers have introduced higher quality own-label merchandise often at different price points. In the last economic cycle retailers have established their own products as brands in their own right. At the same time manufacturers have started to question the wisdom of putting more and more money into trade promotion to secure distribution, when all this does is ensure price loyalty – the consumer waits for the product to come on offer and then retreats to other brands when it comes off offer.

As a result, manufacturers like Procter have changed their strategies. First, they have reduced their prices to become more competitive with retailer brands through programmes such as Procter's every day low pricing. Secondly, they have funded these price reductions by reducing trade promotion and by reducing the number of lines and concentrating on their leading brands. Finally, media advertising has been focused on key brands and exenditure has been increased sharply. In Procter's case for example, in 1996, media expenditure on its top seven brands in the United States increased by 16.3% while its overall advertising expenditure increased by 5.5% – as you can see, increased focus on the market leaders. At the same time price-promotional couponing activity has been reduced.

All this has resulted in a reversal in recent years of the increasing share of promotional spending in overall marketing budgets. In addition private label or store brand shares of market have topped out, and media advertising is increasing. In turn this seems to suggest a resurgence in the importance of brand building and media advertising. However, the problem remains of how to sort out how much of this is secular rather than cyclical. 1996 saw a continuation of the same behaviour we saw in 1995. If there is a cyclical downturn it will be interesting to see if the new approach will be maintained.

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Board of Directors

Hamish Maxwell Age 70
Chairman (non-executive)
Hamish Maxwell became chairman of WPP in October 1996, after joining the Board in July 1996. Previously he had an international marketing and management career with Philip Morris Companies Inc, serving as chairman and chief executive from 1984 to 1991. He represents successful experience in marketing, finance and the media. Under his leadership, Philip Morris underwent fundamental change involving some of the largest takeovers the consumer goods industry has known: General Foods in 1985, Kraft in 1988 and Jacobs-Suchard in 1990. He is also a non-executive director of Bankers Trust, News Corporation and Sola International.

Martin Sorrell Age 52
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

Paul Richardson Age 39
Group finance director
Paul Richardson became Group finance director of WPP in December 1996 after four years with the Company as director of treasury. He is responsible for the Group's worldwide finance function, including external reporting, taxation, procurement, property, treasury and internal audit. Previously he spent six years with the central team of Hanson plc financing major acquisitions and disposals. He is a chartered accountant and member of the Association of Corporate Treasurers.
e-mail: prichardson@wpp.com

Brian Brooks Age 41
Group director of human resources
Brian Brooks joined WPP in September 1992. He is responsible for co-ordinating the recruitment and development of senior talent throughout the Group, as well as career and succession planning for key people. He manages total remuneration programs and all WPP stock ownership plans, in partnership with each WPP company. Previously he was a partner in Towers Perrin in New York and London.
e-mail: bbrooks@wpp.com

Eric Salama Age 36
Group director of strategy
Eric Salama joined the parent company of WPP in 1994 and the Board in July 1996. He is responsible for developing and implementing the Group's strategy including practice development of integrated teams for clients, management training and the creation of new opportunities in media, interactivity and internal marketing. Previously he was joint managing director of The Henley Centre, a WPP company.
e-mail: esalama@wpp.com

Gordon Sampson Age 73
Chief executive, manufacturing
Gordon Sampson founded the original Wire and Plastic Products company in 1958 manufacturing goods for consumer markets. He remains chief executive of the manufacturing company and, since 1989, has been deputy chairman of WPP.

John Quelch Age 45
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 US Office Products Company.

Jeremy Bullmore Age 67
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 67
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 48
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.

Stanley Morten Age 53
Non-executive director
Stanley Morten was appointed a director in 1991. He is the chief operating officer of Punk, Ziegel & Company, a New York-based investment banking firm with a focus on selected emerging growth sectors in the healthcare and technology industries. He previously was managing director of the equity division of Wertheim Schroder & Co., Inc. in New York.

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 services
J F Zweig
M E Howe
S Sampson
K Herrick

Group strategy and practice development
M C Scott

Communications and investor relations
F McEwan
A H N Hall

Financial control and management reporting
D Barker
J Drefs
W F Hickson
N P Douglas

Internal audit
N E Read
L A Mellman

International tax
D M Roberts
T O Neuman
M L Rooker

International treasury
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

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

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
20 Little Britain
London
EC1A 7DH

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
Kings House
36 King Street
London
EC2V 8QQ

Directors' responsibilities

Corporate governance

During 1996, 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 62.

Directors' operational role and responsibilities

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

Non-executive directors of the Company are drawn from a diverse range of backgrounds in order to provide a wide range of views in respect of the business, financial and strategic activities of the Group. Although certain non-executive directors hold shares in the Company in order to enhance their independence they currently do not participate in the Company's share option schemes. 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 47 to 55, reviews the remuneration and terms of employment of executive directors and senior executives of the Company, and directors and senior executives in operating companies. The committee comprises the following non-executive directors: Messrs S W Morten (chairman), H Maxwell, Sir Paul Judge and J A Quelch.

Nomination committee

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

Operating unit controls

Procedures have been developed whereby each operating unit completes a Self-Certification Questionnaire confirming compliance with key financial controls and procedures. These questionnaires are reviewed by the internal auditors and the results reported to the Audit committee.

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 1997 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 47 to 55.

Remuneration of the directors was as follows:

							Long-term incentive plans [2]		Pension contributions	
Chairman	Location	Salary and fees £000	Other benefits £000	Short-term incentive plans (annual bonus) [1] £000	1996 Total £000	1995 Total £000	1996 Total £000	1995 Total £000	1996 Total £000	1995 Total £000
H Maxwell [3] (appointed 1 October 1996)	UK/USA	25	-	-	25	-	-	-	-	-
G K G Stevens (retired 30 September 1996)	UK	131	-	-	131	175	-	-	-	-
Executive directors										
M S Sorrell [4]	UK/USA	734	21	734	1,489	1,452	982 [7]	877	318	318
B J Brooks	USA	160	2	88	250	239	183 [8]	900	18	17
P W G Richardson [5] (appointed 5 December 1996)	UK	15	2	7	24	-	115 [9]	-	1 [11]	-
E R Salama [6] (appointed 15 July 1996)	UK	50	6	30	86	-	-	-	5 [11]	-
R E Lerwill (resigned 5 December 1996)	UK	217	99	-	316	357	1,483 [10]	221	80	85
G C Sampson	UK	68	5	-	73	73	-	-	-	-
Non-executive directors										
J J D Bullmore [12]	UK	73	17	-	90	92	-	-	-	-
J B H Jackson	UK	20	-	-	20	20	-	-	-	-
Sir Paul Judge	UK	20	-	-	20	20	-	-	-	-
S W Morten	USA	22	-	-	22	22	-	-	-	-
J A Quelch [12]	USA	98	24	-	122	77	-	-	-	-
Total remuneration		1,633	176	859	2,668	2,527	2,763	1,998	422	420

Notes

1 Amounts included in short-term incentive plans represent bonuses in respect of 1996 performance, paid in 1997.

2 Amounts included in long-term incentive plans represent awards paid under the performance share plan, details of which are referred to on page 49 and the difference between the market value and the exercise price of share options exercised during the year. In the case of Mr M S Sorrell, the performance requirements were satisfied on 11 September 1996 in respect of the first tranche of the Capital Investment Plan (see page 51). The value of this tranche on that day was £2.7 million (228.5p per share). This amount is not included in the above table as the ultimate value will depend on the share price in September 1999 and beyond.

3 Appointed a non-executive director on 15 July 1996. From date of appointment as Chairman (1 October 1996), the annual fee is £100,000.

4 The amount of salary and fees comprises the fees payable under the UK Agreement with JMS Financial Services Limited ('JMS') and the salary payable under the US Agreement referred to on page 51. In 1996, as in previous years, JMS discharged all relevant UK national insurance costs attributable to the provision of the services of Mr Sorrell under the UK Agreement. The salary and pension contribution payable under the US Agreement has been converted into £ sterling at $1.5616 to £1.

5 From date of appointment; the annual salary is £180,000 and the annual bonus for the year under review was £79,000.

Notes continued

6 From date of appointment; the annual salary is £110,000 and the annual bonus for the year under review was £66,000.

7 This performance share plan award was used to acquire 386,420 shares from a WPP Group plc Employee Share Ownership Trust ('ESOP') at a price of 254p per share (1995: 535,053 shares at 164p per share).

8 This performance share plan award was satisfied 75% in cash, and 25% by 18,000 ordinary shares from an ESOP at a price of 254p per share. The 1995 figure includes a gain of £736,000 on the exercise of share options, and an award which was satisfied 50% in cash, and 50% by 49,858 ordinary shares from an ESOP at a price of 164p per share.

9 This performance share plan award was satisfied 45% in cash, and 55% by 25,000 ordinary shares from an ESOP at a price of 254p per share.

10 Gain on share option exercise in August 1996.

11 Company pension contributions since date of appointment as directors.

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

Share options

Outstanding options granted to the directors are as follows:

	At 1 Jan 1996*	Granted/ (lapsed) 1996*	Exercised and realised 1996*	Exercised and retained 1996*	At 31 Dec 1996 and 2 May 1997	Exercise dates		Exercise price per share	Market price per share on date of exercise
	Number	Number	Number	Number	Number	Commencement	Expiry		
B J Brooks	229,331	-	-	-	229,331	Sep 1996	Sep 2003	102.0p	n/a
	180,717	-	-	-	180,717	Sep 1997	Sep 2004	119.0p	n/a
	68,967	-	-	-	68,967	Dec 1998	Dec 2005	158.0p	n/a
R E Lerwill	58,674	(58,674)	-	-	-	Apr 1989	Apr 1996	307.0p	n/a
	16,548	(16,548)	-	-	-	Apr 1990	Apr 1997	647.0p	n/a
	11,632	(11,632)	-	-	-	Sep 1990	Sep 1997	589.0p	n/a
	58,777	(58,777)	-	-	-	Sep 1991	Sep 1998	429.0p	n/a
	535,162	-	(535,162)	-	-	Apr 1996	Apr 2003	52.5p	225.5p
	321,981	-	(321,981)	-	-	May 1996	May 2000	52.5p	225.5p
	195,652	(195,652)	-	-	-	Apr 1997	Apr 2004	115.0p	n/a
	166,667	(166,667)	-	-	-	Apr 1998	Apr 2005	108.0p	n/a
	41,667	(41,667)	-	-	-	Apr 1998	Apr 2002	108.0p	n/a
P W G Richardson	100,000	-	-	-	100,000	Jan 1996	Jan 2000	40.0p	n/a
	102,941	-	-	-	102,941	Sep 1996	Sep 2003	102.0p	n/a
	88,235	-	-	-	88,235	Sep 1997	Sep 2004	119.0p	n/a
	32,468	-	-	-	32,468	Sep 1998	Sep 2005	154.0p	n/a
	24,497	-	-	-	24,497	Sep 1999	Sep 2006	233.5p	n/a
E R Salama	67,227	-	-	-	67,227	Sep 1997	Sep 2004	119.0p	n/a
	90,909	-	-	-	90,909	Sep 1998	Sep 2005	154.0p	n/a
G C Sampson	4,313	-	-	-	4,313	Apr 1998	Apr 2005	108.0p	n/a
M S Sorrell	190,476	-	-	(190,476)	-	Apr 1996	Apr 2003	52.5p	209.5p

*Or date of appointment, if later.

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

Phantom options were granted to JMS in relation to 1993 in respect of 2,196,190 ordinary shares at a base price of 52.5p per share, exercisable between April 1996 and April 2003 and in relation to 1994 in respect of 577,391 ordinary shares at a base price of 115p per share, exercisable between September 1999 and April 2004. As at 2 May 1997, JMS had exercised 625,000 phantom options in relation to those granted in 1993, which it did on 21 April 1997 at a share price of 247.5p per share, resulting in a payment after deduction of the base price of 52.5p per share of £1,218,750. This leaves 1,571,190 unexercised phantom options granted in relation to 1993.

The closing share price at 31 December 1996 was 254p and the share price during the year ranged between 157p and 254p.

Share options existing prior to 8 April 1993, and their exercise prices, have been adjusted to reflect the impact of the rights issue which occurred on that date.

Other long-term incentive plan awards (1)

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

	At 1 Jan 1996 (or date of appointment, if later)	Granted/ (lapsed) 1996	Vested 1996	At 31 Dec 1996	Granted 1997	Vested 1997	At 2 May 1997	Performance period	Price per share on valuation date (2)
	Number	Number	Number	Number	Number	Number	Number		
B J Brooks	99,715	-	(99,715)	-	-	-	-	1 Jan 93 – 31 Dec 95	164p
	72,000	-	-	72,000	-	(72,000)	-	1 Jan 94 – 31 Dec 96	254p
	48,869	-	-	48,869	-	-	48,869	1 Jan 95 – 31 Dec 97	n/a
	73,933	-	-	73,933	-	-	73,933	1 Jan 96 – 31 Dec 98	n/a
	-	-	-	-	60,864	-	60,864	1 Jan 97 – 31 Dec 99	n/a
R E Lerwill	134,615	-	(134,615)	-	-	-	-	1 Jan 93 – 31 Dec 95	164p
	97,200	(97,200)	-	-	-	-	-	1 Jan 94 – 31 Dec 96	n/a
	69,140	(69,140)	-	-	-	-	-	1 Jan 95 – 31 Dec 97	n/a
	101,124	(101,124)	-	-	-	-	-	1 Jan 96 – 31 Dec 98	n/a
P W G Richardson	45,370	-	-	45,370	-	(45,370)	-	1 Jan 94 – 31 Dec 96	254p
	32,265	-	-	32,265	-	-	32,265	1 Jan 95 – 31 Dec 97	n/a
	42,172	-	-	42,172	-	-	42,172	1 Jan 96 – 31 Dec 98	n/a
	-	-	-	-	67,925	-	67,925	1 Jan 97 – 31 Dec 99	n/a
E R Salama	17,559	-	-	17,559	-	-	17,559	1 Jan 95 – 31 Dec 97	n/a
	49,438	-	-	49,438	-	-	49,438	1 Jan 96 – 31 Dec 98	n/a
	-	-	-	-	56,604	-	56,604	1 Jan 97 – 31 Dec 99	n/a
M S Sorrell (3)	535,043	-	(535,043)	-	-	-	-	1 Jan 93 – 31 Dec 95	164p
	386,420	-	-	386,420	-	(386,420)	-	1 Jan 94 – 31 Dec 96	254p
	6,445,912	-	-	6,445,912	-	-	6,445,912	4 Sep 94 – 4 Sep 99	n/a

Notes

1 All awards shown on this table, except the 6,445,912 shares referred to in note 3, were made under the performance share plan (formerly performance unit plan), details of which can be found on page 49.

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

3 The awards of 535,043 and 386,420 performance shares represent entitlements to the cash equivalents of the market value of the equivalent number of ordinary shares at the date of vesting. The 6,445,912 shares represent the maximum number of shares, or cash equivalent of shares which could vest, assuming that all of the criteria specified were met under the Capital Investment Plan and the Notional Share Award Plan. Details of these two Plans are set out on pages 51 and 52. Any such shares and awards in respect of which the criteria are met, must be retained until September 1999 and consequently their value cannot be established until that time. As of 2 May 1997, the performance conditions in respect of the first two tranches of the Capital Investment Plan and the first tranche of the Notional Share Award Plan had been satisfied. In view of the retention requirements referred to above the number of shares, or cash equivalent of shares, for which the performance conditions have been satisfied by 2 May 1997 has not been shown in the above table. Following the satisfaction of the performance requirements of the first tranche of the Capital Investment Plan (1,172,848 shares), WPP Group USA, Inc. paid in October 1996 $47,156 (£30,147) on behalf of Mr M S Sorrell in respect of US withholding tax which remained outstanding at 31 December 1996 and which was repaid on 16 April 1997. No interest is payable by Mr Sorrell on this amount.

Directors' remuneration and interests and other statutory information

Directors' interests

Ordinary shares

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

	At 1 Jan 1996 (or date of appointment, if later)	Shares acquired through long-term incentive plan awards in 1996		Other movements 1996 purchased/ (sold)	At 31 Dec 1996 (or earlier date of resignation/ retirement)	Shares acquired through long-term incentive plan awards in 1997	At 2 May 1997
		Vested	(sold)				
B J Brooks	90,000	49,858	-	-	139,858	18,000	157,858
J J D Bullmore	20,065	-	-	-	20,065	-	20,065
J B H Jackson	-	-	-	12,500	12,500	-	12,500
H Maxwell	-	-	-	35,000	35,000	-	35,000
S W Morten	20,000	-	-	-	20,000	-	20,000
J A Quelch	10,000	-	-	-	10,000	-	10,000
P W G Richardson	-	-	-	-	-	25,000	25,000
E R Salama	400,715	-	-	(102,500)	298,215	-	298,215
G C Sampson	550,000	-	-	-	550,000	-	550,000
M S Sorrell	3,286,982	725,519	-	-	4,012,501	386,420	4,398,921
R E Lerwill	73,738	-	-	-	73,738	n/a	n/a
G K G Stevens	18,000	-	-	-	18,000	-	n/a

Subscription warrants

In addition to the above, during the year under review and prior to their lapse on 30 June 1996, subscription warrants were held by the following directors: Messrs J J D Bullmore 375; R E Lerwill 7,509 and M S Sorrell 116,285. Each subscription warrant carried 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

Each of the executive directors has a technical interest as an employee and potential beneficiary in one of the Company's three ESOPs in shares in the Company held under the relevant ESOP. At 31 December 1996 the Company's ESOPs held in total 13,748,628 shares in the Company (1995: 11,282,693 shares).

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.

Re-election of directors

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

Other statutory information

Substantial share ownership

As at 2 May 1997, the Company has been notified of the following interests of 3% or more in the issued ordinary share capital of the company:

	%
Tiger Management LLC	5.01
Fidelity Investments	3.99

The disclosed interests of both Tiger Management LLC and Fidelity Investments respectively, refer to the combined holdings of those entities and to interests associated with them.

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

Profits and dividends

The profit on ordinary activities before tax for the year was £153.3 million (1995: £113.7 million). The directors recommend a final ordinary dividend of 1.144p (net) (1995: 0.865p) per share to be paid on 14 July 1997 to share owners on the register at 13 June 1997 which, together with the interim ordinary dividend of 0.556p (1995: 0.445p) per share paid on 29 November 1996, makes a total of 1.7p (net) for the year (1995: 1.31p). The retained profit for the year of £87.6 million is carried to reserves.

Group activities

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

Fixed assets

The consolidated balance sheet includes a conservative estimate of certain corporate brand names. Details of this and movements in fixed assets are set out in notes 12, 13 and 26.

Share capital

Details of share capital movements are given in note 23.

Charitable and political contributions

The Group contributed £0.3 million to UK charities in 1996 (1995: £0.3 million). No contributions were made to political parties.

Supplier payment policy

The Company's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction, and to ensure that suppliers are made aware of the terms of payment and abide by the terms of payment.

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
2 May 1997

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

The Compensation committee considers that throughout the year under review the Company has complied with Section A of the best practice provisions annexed to the Listing Rules and that full consideration has been given to the best practice provisions set out in Section B of these Rules in determining total remuneration for directors and senior executives during 1996. The Reports of the Auditors on the financial statements set out on page 62 confirms that the scope of their reports cover the disclosures contained or referred to in this Report that are specified for their examination by The London Stock Exchange.

Details of each individual director's remuneration and of their beneficial holdings of the Company's shares, warrants and options over shares are set out on pages 42 to 45.

Role of the Compensation committee

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

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

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

The Compensation committee determines the remuneration of the Group chief executive, a summary of which is set out on pages 51 and 52, on the basis of a comparison with the chief executives of other global, multi-agency communications services companies, including the Omnicom Group and The Interpublic Group of Companies. The remuneration of the other executive directors is based on comparable positions in multinational companies of a similar size and complexity.

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

Compensation committee report

Remuneration policy for executive directors and senior executives

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

The following comprise the principal elements of executive remuneration:

I Base salaries

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

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

II Annual incentive remuneration

Annual incentives are paid under plans established for each operating company and for executives of the parent company. Groupwide, there are approximately 2,200 participants in annual incentive plans, or 10% 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 each year in one or more of the following areas:

- operating profit or operating cash flow;
- operating profit margin;
- improvements in the staff cost to revenue ratio;
- revenue growth or revenue conversion.

Individual bonuses are payable from the available bonus pools and are determined on the basis of achievements against individual performance objectives, encompassing key strategic and financial performance criteria, including the level of co-operation between operating companies. In each case, the annual incentive objectives relate to the participant's own operating company, division, client or functional responsibility.

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

III Long-term incentive remuneration

Long-term incentives comprise a significant portion of total remuneration for senior executives in the parent company and each operating company. Groupwide, approximately 400 or 2% of all employees participate in a long-term incentive plan.

Parent company

The only long-term incentive program for executive directors (excluding the Group chief executive) consists of annual grants of WPP performance shares. The value of each performance share is equivalent to one ordinary WPP share. The number of shares vesting over each three-year performance period is dependent on the total share owner return of WPP relative to the total share owner return 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, Havas Advertising and True North Communications. Where the Group's total share owner return is below the median level of the peer group, none of the performance shares vest. At median performance for the 1996-98 period, 50% of the performance shares vest, with higher percentages vesting for superior performance up to 100% if WPP ranks at least equal to the second ranking peer company.

Over both of the first two performance periods (1993-95 and 1994-96), WPP's performance ranked first among the peer group companies. The Group chief executive participated in these performance periods, but not in subsequent periods. Contingent grants of performance shares for the 1995-97, 1996-98 and 1997-99 periods range from 25% to 80% of base salary for all participants.

Operating companies

Senior executives of most Group operating companies, participate in long-term incentive plans, which provide rewards in cash and restricted WPP stock for the achievement of three-year financial performance targets. These plans operate on a rolling three-year basis with an award becoming payable in March 1997 under the 1994-96 long-term incentive plans of a number of operating companies. The value of payments earned by executives over each performance period is based on the achievement of targeted improvements in two or more of the following performance measures:

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

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

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

Stock option awards under the 100 and 300 Clubs are in addition to competitive total remuneration opportunities provided under the other programs described above.

Compensation committee report

Executive Stock Ownership Policy

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

Executive Stock Option Plan and Worldwide Ownership Plan

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

Additionally, the Company has broadened stock option participation by introducing the Worldwide Ownership Plan for all employees of 100%-owned Group companies, with at least two years' service, in order to develop a stronger ownership culture and greater knowledge of Group resources.

Retirement benefits

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

In the two markets where the Group employs the largest number of people, the United States and the United Kingdom, pension provision is increasingly taking the form of defined contribution benefits. This trend is consistent with the Group's policy, although the Group still maintains one defined benefit plan in the US and three defined benefit plans in the UK. In each case, these pension plans are provided for the benefit of employees in specific operating companies, and in the case of the UK plans, are closed to new entrants. All Company pension coverage for the parent company's executive directors is on a defined contribution basis and neither annual nor long-term incentive payments are pensionable under any Company retirement plan. Details of pension contributions for the year under review in respect of executive directors are set out on page 42.

Notice periods

Each of the executive directors is bound to provide his services under a contract of service or other arrangements, details of which, including the notice periods, are set out on pages 51 and 52.

The Compensation committee considers that there are special circumstances in respect of the notice period applicable to the Group chief executive, which is for a fixed term of three years from 1 September 1996, renewable for a term of three years on or before 1 September each year.

The contractual arrangements relating to the Chairman are set out on page 52.

Directors' service contracts
The Group chief executive: Mr M S Sorrell

Mr Sorrell's services to the Group outside the USA are provided by JMS Financial Services Limited ('JMS') and in addition Mr Sorrell is directly employed by WPP Group USA, Inc. relating to his activities in the USA. Taken together, the agreement with JMS ('the UK Agreement') and the agreement with Mr Sorrell directly ('the US Agreement') provide for the following remuneration all of which is disclosed on pages 42 to 44:

- annual salary and fees of £734,000 ($1,145,000);
- annual pension contributions of £318,000 ($500,000);
- short-term incentive (annual bonus) and long-term incentive entitlements (see below);
- the Capital Investment Plan (see below);
- the Notional Share Award Plan (see page 52).

In addition JMS is entitled to phantom options linked to the WPP share price, granted in relation to 1993 and 1994 as disclosed on page 43. No further phantom options have been or will be granted.

Long-term incentive plans

JMS participated in the long-term WPP Performance Share Plan in respect of the performance period 1 January 1994 to 31 December 1996. JMS (and Mr Sorrell) will not participate under that Plan in subsequent periods. In respect of the period to 31 December 1996 and pursuant to the terms of the Plan, JMS became entitled to the value of 386,420 ordinary shares at a price of 254p per share.

The Capital Investment Plan (CIP)

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

The CIP required Mr Sorrell to invest approximately £2 million in order to acquire 1,129,305 ordinary shares which were required to be retained until at least 4 September 1996, and a further 747,252 ordinary shares which are to be retained until 4 September 1999. If the criteria described below are achieved, which will result in substantially increased share owner value, Mr Sorrell will become entitled to certain Performance Shares, all of which have to be retained until 4 September 1999. The maximum number of Performance Shares to which Mr Sorrell could become entitled under the CIP is 4,691,392 in four equal tranches of 1,172,848. These Performance Shares have already been acquired by an ESOP at a total cost of approximately £5.5 million and to the extent not utilised for the purposes of the CIP will be available for use in the ESOP for other purposes.

The specific performance conditions are:

- 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 2 May 1997, the criteria referred to above in respect of the first and second share price levels of 198p and 230p respectively were met. The criteria in respect of the other share price levels had not been met at that date.

Compensation committee report

The Notional Share Award Plan

The Notional Share Award Plan ('the Notional Award Plan') was established in order to compensate JMS for agreeing not to participate in future performance periods under the long-term share plan referred to on pages 44 and 49 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 on 4 September 1999 based on terms, conditions and performance criteria which correspond with those of the CIP referred to on page 51. 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.

As at 2 May 1997 the criteria referred to above for the first share price level of 230p had been met, but the criteria in respect of the other share price levels had not been met at that date.

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

Other executive directors

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

The Chairman

The Chairman, Mr H Maxwell is subject to a contract dated 9 September 1996 for a period expiring on 30 September 1998, subject to Mr Maxwell being able to terminate by giving not less than three months' notice.

Compensation of 'executive officers'

The following tables set forth compensation details for the Group chief executive and each of the other five most highly compensated executive officers in the Group as at 31 December 1996 (the 'executive officers'). As used in this statement, the 'executive officers' are deemed to include executive directors of the Company, or an executive who served 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 and 1996. Incentive compensation paid in 1997 for performance in 1996 and previous years, is not included in these tables, consistent with US reporting requirements.

1996 executive remuneration

Name	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	1996	734	706	21	-	-	318
	WPP Group	1995	730	605	16	-	-	318
C Beers	Chairman/							
	Chief executive officer	1996	640	480	73	387,206	44,967	69
	Ogilvy & Mather Worldwide	1995	634	309	72	617,169	-	-
B Manning [5]	Chairman/							
	Chief executive officer	1996	633	-	17	-	-	735
	J. Walter Thompson Company	1995	627	-	-	-	-	702
R E Lerwill	Group finance director	1996	217	113	99	-	-	80
	WPP Group	1995	225	101	19	208,334	-	85
P W G Richardson	Group finance director	1996	146	52	20	24,497	-	14
	WPP Group	1995	105	47	11	32,468	-	10
P Barnard	Chief executive officer	1996	200	100	10	107,066	19,824	59
	Kantar Group	1995	200	100	6	129,870	-	75

Notes

1 Represents short-term incentive awards paid during calendar years 1995 and 1996 in respect of the prior year's incentive plans.

2 Includes the value of company cars, club memberships, executive health and other benefits and supplemental executive life insurance, and in relation to Ms C Beers, the economic imputed value of an interest-free loan.

3 As used in this report, the term 'phantom shares' (as used in the UK) and the term 'free-standing SARs' (as used in the US) are interchangeable. Both are analogous to a share option.

4 Includes accruals during each calendar year under consideration, under defined contribution retirement plans and defined benefit retirement arrangements. The annual value of defined benefit retirement plans is not included in this table. In relation to Ms C Beers, forgiveness of a part of a loan.

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

Option grants made in 1996

	Stock options, granted (number of shares)	% of total options granted by Company in 1996	Exercise price (p per share)	Expiry date [1]	Potential realisable value at assumed annual rates of stock price appreciation for option term 0% £	5% £	10% £
M S Sorrell [2]	-	-	-	-	-	-	-
C Beers	112,765	0.01	214p	June 2006	-	152,233	384,529
	274,441	0.03	233.5p	Sep 2006	-	403,428	1,020,920
B Manning	-	-	-	-	-	-	-
R E Lerwill	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
P W G Richardson	24,497 [3]	0.002	233.5	June 2006	-	36,011	91,129
P Barnard	107,066	0.01	233.5p	Sep 2006	-	157,387	398,286

Notes

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

2 Mr M S Sorrell did not participate in any stock option award in 1996. Particulars of the CIP and Notional Award Plan in which he did participate are set out on pages 51 and 52

3 Granted prior to appointment as a director.

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

	Shares acquired on exercise	Market value at exercise date (£)	Number of shares underlying unexercised share options, SARs and phantom stocks at year-end		Value of unexercised in-the-money stock options, SARs and phantom stocks at year-end (£)*	
			Exercisable	Unexercisable	Exercisable	Unexercisable
M S Sorrell	190,476	299,047	2,196,190	577,391	4,425,323	802,573
C Beers	-	-	500,000	1,203,955	1,007,500	1,050,761
B Manning	-	-	500,000	-	1,007,500	-
R E Lerwill	857,143	1,482,857	-	-	-	-
P W G Richardson	163,899	242,571	202,941	145,200	370,470	156,607
P Barnard	100,000	181,000	-	377,023	-	351,102

*Value calculated by subtracting the exercise price from the fair market value of the Group's ordinary shares on 31 December 1996, namely 254p.

Long-term incentive plan awards made in 1996

	Number of units or shares	Performance period	Threshold	Target	Maximum
M S Sorrell	n/a	n/a	n/a	n/a	n/a
C Beers	3,563 (2)	1 Jan 96 – 31 Dec 98	nil	£226,242	£342,245
B Manning	n/a	n/a	n/a	n/a	n/a
R E Lerwill	101,124 (1)	1 Jan 96 – 31 Dec 98	n/a	n/a	n/a
P W G Richardson	42,172 (1)	1 Jan 96 – 31 Dec 98	n/a	n/a	n/a
P Barnard	1,000 (3)	1 Jan 96 – 31 Dec 98	nil	£100,000	£150,000

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 communications services and advertising companies. However, in relation to the 1996-1998 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.

The table on page 3 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 reinvested.

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

- formal and informal meetings at the individual company level;
- monthly chief executive reports to participants in short- and long-term incentive plans;
- distribution of the Annual Report and Accounts and the *Navigator*;
- a regular newsletter throughout the Group; and
- the circulation, as appropriate, of explanatory booklets in relation to stock ownership and other compensation plans.

Employees of the Group, including those participating in the Worldwide Ownership Plan referred to on page 50, are eligible to receive stock option grants. As at 2 May 1997, options have been granted to a total of 10,999 (May 1996: 736) employees over 36,198,729 (May 1996: 28,608,096) ordinary shares of the Company.

Employees own approximately 10% (1995: 8%) of the issued share capital of the Company.

Remuneration policy for non-executive directors

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

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

On behalf of the Board
S W Morten
Chairman of the WPP Group plc
Compensation committee
2 May 1997

Summary of results

Turnover was up 8.1% to £7.1 billion, revenues up 8.8% to £1.691 billion and gross profit up 8.2% to £1.436 billion. On a like-for-like and constant currency basis, revenues were up 8.3%.

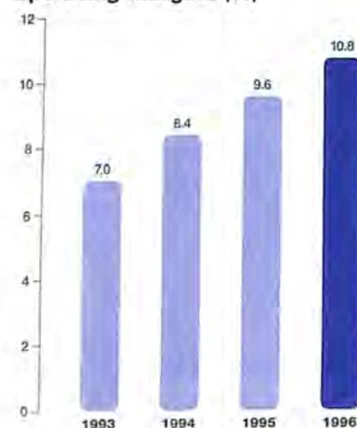
Operating profit rose by 22% to £182.4 million from £149.5 million. Profit before tax rose 35% to £153.3 million from £113.7 million, chiefly reflecting improved profitability and cash flow and a reduction in interest costs.

The Group tax rate on profits was 33%, an improvement on the previous year's 38%. This reflects the positive impact of the Group's tax restructuring. Over the last four years the Group has reduced its tax rate on profits by almost one-third from 47% in 1992.

Fully diluted earnings per share rose 46% to 13.3p from 9.1p, well above the Group's financial objective of increasing earnings per share by 20% per annum. Fully diluted earnings per share have almost quadrupled over the last three years.

The Board recommends an increase of 32% in the final dividend to 1.144p net per share, making a total of 1.7p net per share for 1996, a 30% increase over 1995.

Operating margins (%)



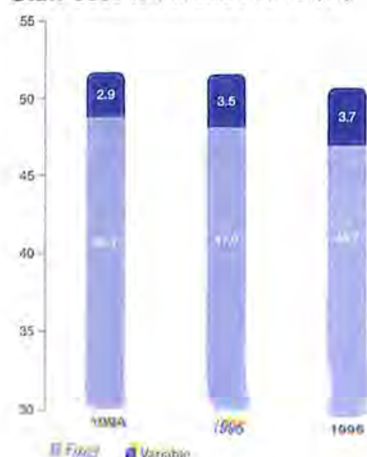
Operating margins

Operating margins rose by over 1% for the fourth year in a row, up 1.2% to 10.8% from 9.6%. This was ahead of the Group's financial objective of increasing margins by 1% per annum between 1993 and 1996 to a level of over 10%. Although performance is still below the very best performing competition, the gap is narrowing further.

Operating margins before short- and long-term incentive payments rose to 14.1% from 12.8%. 1997 will be the third year of significant payments to a broader group of our key people under the long-term 'phantom' share incentive plans established in 1992. These shares are valued on the basis of the worldwide performance of the operating companies in which our people work, and awards are paid partly in cash and up to 50% in restricted WPP ordinary shares. Operating costs rose by 6.4%.

The Group's staff cost to revenue ratio fell by 1.0% to 50.4% from 51.4% in 1995 and 51.6% in 1994. As variable staff costs, that is principally 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, to 3.5% in 1995 and 3.7% in 1996. 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, to 47.9% in 1995 and 46.7% in 1996. As a result enhanced flexibility has been introduced into the cost structure.

Staff cost to revenue ratio (%)



Establishment costs have reduced as a percentage of revenue in part due to the substantial progress made over the last five years in reducing the level of surplus property. Over 585,000 sq ft with a cash cost of approximately £14 million ($22 million) per annum has been sublet or absorbed by other Group companies.

Like-for-like performance

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, commercial exposures to foreign exchange fluctuations are limited.

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

As mentioned above, on a like-for-like basis, revenues rose by 8.3%. On the same basis, gross profit was 7.7% up on 1995. Operating costs were 5.8% up on the previous year. The Group's staff cost to revenue ratio improved to 50.3% from 51.5%. Staff costs rose by 5.8%, and average salaries per head by 4.6%, reflecting the need to maintain competitive salary levels. As a result of additional hiring total salaries rose 7.7%.

On a constant basis, pre-tax profits were slightly higher than reported profits, as sterling strengthened not only against the dollar but against most of the Group's key trading currencies particularly in the fourth quarter. If sterling had stayed at the same levels as the first nine months, pre-tax profits would have been almost £155 million.

Headcount

Our staff numbers averaged 21,166 against 20,152 in 1995, up 5.0%. On a like-for-like basis, average headcount was up 608 to 21,166 from 20,558, an increase of 3.0%. At the end of 1996 staff numbers were 22,102 compared with 21,618 on a like-for-like basis at the end of 1995, an increase of 2.2%.

Sector performance

Advertising

Combined advertising revenues at J. Walter Thompson Company and Ogilvy & Mather Worldwide rose by 7.2%. Combined operating margins for the two brands were 14.4%. Combined operating costs rose by 5.3% and the combined staff costs to revenue ratio fell to 56.9% from 57.8%. J. Walter Thompson Company generated net new billings of over £263 million ($411 million) and Ogilvy & Mather Worldwide £255 million ($399 million).

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

Information & consultancy

The Group's businesses continued their strong growth with gross profit rising by over 10%. Operating costs rose by over 9% and as a result, margins rose by 0.7% over the previous year. Particularly strong performances were recorded by Millward Brown, Research International, BMRB and Winona.

Public relations & public affairs

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

Hill and Knowlton's revenues rose by 8.4% and operating costs by 1.6%. As a result, Hill and Knowlton continued its return to profitability. Most of this improvement occurred in the United States and Europe, with part due to a reduction in property costs.

Ogilvy Adams & Rinehart's revenues rose by 7% and operating costs by approximately 5%. Profitability and margins continued to improve over last year.

Our public relations business as a whole showed operating margins in line with the Group's objectives for 1996.

Specialist communications

Specialist communications revenues rose by almost 11%. Gross margins rose by over 8% and operating costs by 4%. As a result, overall operating margins increased. Several of our companies in this sector performed particularly well, including in direct, promotion and relationship marketing: Ogilvy Direct in the US, Einson Freeman, RTCdirect, EWA, Mando Marketing, Promotional Campaigns in the UK and in The Netherlands; in branding, identity and design: Coley Porter Bell, Sampson Tyrrell Enterprise, BDG/McColl, Oakley Young, AG Enterprise, SBG Partners and the Walker Group/CNI; in healthcare marketing: Ferguson Communications Group and HLS CORP and in other specialist communications services: Pace and JWT Specialized Communications.

Manufacturing

The Group's manufacturing division had a better year with operating profits rising to £0.3 million from £0.2 million.

Parent company initiatives

The parent company sets short- and long-term incentive plan objectives which 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 very best performing competition, increasing emphasis will be placed on revenue generation through these incentive objectives.

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, procurement, information technology and practice development. The objective behind these initiatives is to position the parent company as more than just a financial brand which concentrates on financial reporting, control,

acquisitions and disposals, tax, treasury and investor relations. Innovative graduate recruitment schemes, awards and training programs have all continued to be implemented and developed in 1996. In the first few months of 1997 the parent company implemented a worldwide share ownership program for all our people with over two years' service, a partnership program rewarding outstanding examples of collaboration across operating companies with the objective of adding value to our clients' businesses and training programs on the new media and to enhance and stimulate creativity.

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

Cash flow

As at 31 December 1996, the Group was cash positive with net cash of £159 million compared with £71 million at 31 December 1995 (1995: £57 million on the basis of 1996 year-end exchange rates). As usual, this was primarily due to the seasonally strong fourth quarter and management efforts to improve working capital.

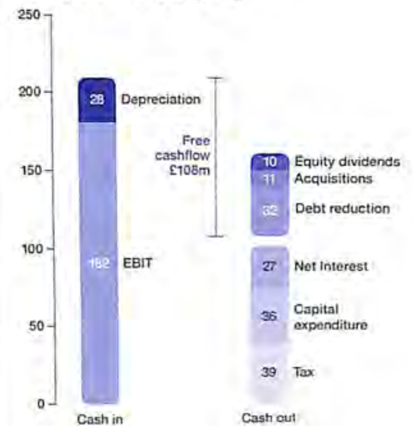
Net debt averaged £145 million in 1996 against £214 million in 1995 (1995: £218 million at 1996 exchange rates). These net debt figures compare with an equity market capitalisation of over £1.8 billion (up 56% on last year), giving a total enterprise value of approximately £2.0 billion at the time of going to press.

For management purposes, we monitor the free cash flow generated by the Group. Overall, this was better than anticipated as a result of improved profitability and debt management. In 1996, earnings before interest and taxes ('EBIT') were £182 million, capital expenditure £36 million, depreciation £28 million, tax paid £39 million and interest and similar charges paid £27 million. Free cash flow available for debt repayment, acquisitions and dividends was therefore £108 million. This excludes the additional benefit we receive from the year-on-year improvements in working capital management. Over the last three years this has contributed more than £100 million to Group liquidity.

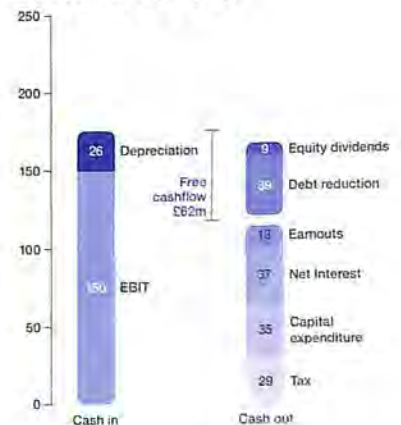
Assuming modest revenue growth and that operating margins will continue to grow in line with the Company's objectives of 1% per annum, 1997 will see enhanced free cash flow and should generate liquidity after tax available for acquisitions, debt repayments and distributions to share owners of £75 million – £100 million. This would mean that the current average level of indebtedness could be reduced to zero in approximately two years.

In order to enhance share owner value as liquidity improves, your Board has been giving consideration to the relative merits of increasing the dividend payout ratio and share buy-backs. As noted above, your Board has decided to increase the full year's dividend by 30% to 1.7p net per share which is approximately eight times covered. In addition, as current opportunities for acquisitions at sensible prices are limited, the Company has made £25 million

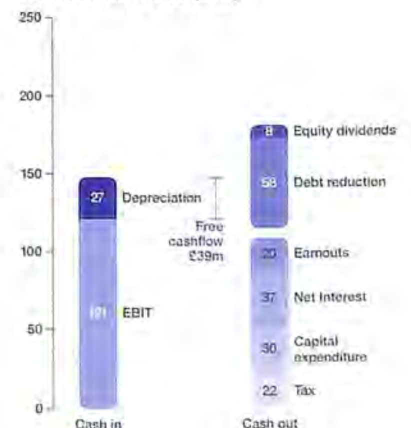
1996 cash flow (£m)



1995 cash flow (£m)



1994 cash flow (£m)



available for share buy-backs in the open market when market conditions are appropriate. Whilst Advance Corporation Tax will be incurred initially on any such share repurchases, this will be recovered at a later date by matching with Foreign Income Dividends received in the United Kingdom. Although such a share repurchase represents a nominal amount of approximately 1-2% of the Company's share capital it is indicative of your Board's view as to one of the ways in which share owner value can be enhanced.

In the first three months of 1997, the period for which information is available prior to printing, liquidity improved still further with net debt averaging £78 million versus £154 million for the same period last year (1996: £160 million at 1997 exchange rates).

As a result of this improved cash flow, and the possibility of an improved credit rating, the Company intends to renegotiate its banking arrangements with the objective of reducing interest costs.

Net balance sheet assets

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.

In 1996, net assets of £27 million compared with net liabilities of £58 million in 1995 (1995: net liabilities of £33 million on the basis of 1996 year-end exchange rates).

Treasury activities

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

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

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

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

1997 outlook

As usual, our budgets for 1997 have been prepared on a conservative basis. They predict like-for-like, year-on-year revenue increases of 6% over 1996. This compares with budgeted growth of 3.5% and 4% in 1995 and 1996 respectively against actual outcomes of 8% and 8.3%. In the first three months

of 1997 we are showing a like-for-like increase of 6%. Although at *current* exchange rates sterling has strengthened against the Group's key trading currencies by approximately 8% on a weighted average basis when compared with the average for 1996, it is anticipated that currency movements will not have as significant an impact at the operating or pre-tax level because of improved profitability and cash flow.

In these circumstances there is no reason to believe that the Group cannot achieve the objective set in 1996 of further improving margins by 1% in 1997 and by another 1% in 1998. Your Board does not believe that there is any functional, geographic, account concentration or structural reason that should prevent the Group achieving operating margins of over 12% by 1998. After all that is where the two best listed performers in the industry are, and where we would want to be.

1997, WPP's twelfth year, should be another good year. Whilst growth will not be buoyed as it was in 1996 by the coincidence of the US Presidential election and the Olympic Games, early indications are that the worldwide growth rate of communications services will only be slightly lower at approximately 5-6%. Despite this positive environment there remains the risk that Government policies will over inflate key economies and trigger the need for deflationary correction. Hence the continued need for our controlled growth and increasingly flexible cost structure.

Reports of the auditors

Report of the auditors to the members of WPP Group plc:
We have audited the financial statements set out on pages 63 to 90, 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 63 and 64. We have also examined the disclosures relating to the emoluments, share options and long-term incentive scheme interests of the directors referred to within the disclosure of Directors' remuneration and interests on pages 42 to 44.

Respective responsibilities of directors and auditors
As described on page 41 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 1996 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
2 May 1997

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 40 concerning the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43 (v).

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

Opinion
With respect to the directors' statements on internal financial control and going concern on pages 40 and 41, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement on page 40 appropriately reflects the Company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43 (j).

Arthur Andersen
Chartered Accountants
London
2 May 1997

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

1 Basis of accounting and presentation of financial statements

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

The presentation of the consolidated cash flow statement has been modified to reflect the early adoption of FRS1 Revised.

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%-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.

Accounting policies

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 1996

Notes		1996 £m	1995 £m	1994 £m	1996 $m	1995 $m	1994 $m
1	**Turnover (gross billings)**	**7,084.0**	6,553.1	6,013.7	**11,062.4**	10,342.1	9,214.8
	Cost of sales	**(5,392.7)**	(4,998.2)	(4,586.8)	**(8,421.3)**	(7,888.2)	(7,028.4)
1	**Revenue**	**1,691.3**	1,554.9	1,426.9	**2,641.1**	2,453.9	2,186.4
	Direct costs	**(254.8)**	(226.9)	(223.0)	**(397.9)**	(358.1)	(341.7)
	Gross profit	**1,436.5**	1,328.0	1,203.9	**2,243.2**	2,095.8	1,844.7
2	Operating expenses (net)	**(1,254.1)**	(1,178.5)	(1,083.4)	**(1,958.4)**	(1,859.9)	(1,660.0)
1	**Operating profit**	**182.4**	149.5	120.5	**284.8**	235.9	184.7
4	Net interest payable and similar charges	**(29.1)**	(35.8)	(35.2)	**(45.4)**	(56.5)	(53.9)
2	**Profit on ordinary activities before taxation**	**153.3**	113.7	85.3	**239.4**	179.4	130.8
5	Tax on profit on ordinary activities	**(50.6)**	(43.2)	(35.8)	**(79.0)**	(68.1)	(54.9)
	Profit on ordinary activities after taxation	**102.7**	70.5	49.5	**160.4**	111.3	75.9
	Minority interests	**(2.7)**	(1.8)	(2.1)	**(4.2)**	(2.9)	(3.2)
	Profit for the financial year	**100.0**	68.7	47.4	**156.2**	108.4	72.7
6	Preference dividends	**-**	-	(1.1)	**-**	-	(1.7)
	Profit attributable to ordinary share owners	**100.0**	68.7	46.3	**156.2**	108.4	71.0
6	Ordinary dividends	**(12.4)**	(9.7)	(8.2)	**(19.4)**	(15.3)	(12.6)
	Retained profit for the year	**87.6**	59.0	38.1	**136.8**	93.1	58.4
7	**Earnings per share (net basis)**						
	Basic earnings per ordinary share	**13.7p**	9.5p	7.9p	**21.4¢**	15.0¢	12.1¢
	Fully diluted earnings per ordinary share	**13.3p**	9.1p	6.5p	**20.8¢**	14.4¢	10.0¢
6	**Ordinary dividend per share (net)**						
	Interim dividend	**0.556p**	0.445p	0.385p	**0.87¢**	0.70¢	0.59¢
	Final dividend	**1.144p**	0.865p	0.750p	**1.79¢**	1.37¢	1.15¢
	Earnings per ADR (net basis)						
	Basic earnings per ADR	**137.0p**	95.0p	79.0p	**$2.14**	$1.50	$1.21
	Fully diluted earnings per ADR	**133.0p**	91.0p	65.0p	**$2.08**	$1.44	$1.00
	Ordinary dividend per ADR (net)						
	Interim	**5.56p**	4.45p	3.85p	**8.7¢**	7.0¢	5.9¢
	Final	**11.44p**	8.65p	7.50p	**17.9¢**	13.7¢	11.5¢

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

The main reporting currency of the Group is the pound sterling and the financial statements have been prepared on this basis. Solely for convenience, the financial statements set out on pages 65 and 67 are also expressed in US dollars using the approximate average rate for the year for the profit and loss account (1996: $1.5616 = £1, 1995: $1.5782 = £1, 1994: $1.5323 = £1) and the rate in effect on 31 December for the balance sheet (1996: $1.7113 = £1, 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 each of the years above and no material operations were acquired or discontinued.

There is no material difference between the results disclosed in the profit and loss account and the historical cost profit as defined by Financial Reporting Standard 3. Movements in share owner's funds are set out in note 23.

Consolidated cash flow statement

For the year ended 31 December 1996

Notes		1996 £m	1995 £m	1994 £m
9	**Net cash inflow from operating activities**	**237.7**	235.8	166.5
10	Return on investments and servicing of finance	**(28.2)**	(38.6)	(38.5)
	United Kingdom and overseas tax paid	**(38.6)**	(29.0)	(22.0)
10	Capital expenditure and financial investment	**(41.0)**	(39.1)	(28.2)
	Acquisitions and earnouts	**(10.8)**	(12.5)	(19.6)
	Equity dividends paid	**(10.4)**	(8.7)	(8.2)
	Net cash inflow before financing	**108.7**	107.9	50.0
10	Net cash outflow from financing	**(31.5)**	(38.5)	(58.4)
	Increase in cash and overdrafts for the year	**77.2**	69.4	(8.4)
	Translation difference	**(44.8)**	4.3	(11.0)
	Balance of cash and overdrafts at beginning of year	**342.2**	268.5	287.9
	Balance of cash and overdrafts at end of year	**374.6**	342.2	268.5
	Reconciliation of net cash flow to movement in net funds:			
	Increase/(decrease) in cash and overdrafts for the year	**77.2**	69.4	(8.4)
	Cash outflow from decrease in debt financing	**34.9**	38.5	58.4
	Other movements	**1.2**	(0.7)	(12.6)
	Translation difference	**(25.5)**	2.2	8.3
	Movement in net funds in the year	**87.8**	109.4	45.7
8	**Net funds/(debt) at beginning of year**	**71.4**	(38.0)	(83.7)
8	**Net funds/(debt) at end of year**	**159.2**	71.4	(38.0)

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

Consolidated statement of recognised gains and losses

For the year ended 31 December 1996

Notes		1996 £m	1995 £m	1994 £m
	Profit for the financial year	**100.0**	68.7	47.4
23	Exchange adjustments on foreign currency net investments	**22.3**	(5.3)	26.8
23	Gain arising on expiry of subscription warrants	**1.9**	-	-
23	Exchange adjustments on conversion of Convertible Cumulative Redeemable Preference shares	**-**	(1.0)	(23.6)
	Total recognised gains and losses relating to the year	**124.2**	62.4	50.6

Consolidated balance sheet

As at 31 December 1996

Notes		1996 £m	1995 £m	1994 £m	1996 $m	1995 $m	1994 $m
	Fixed assets						
12	Intangible assets	**350.0**	350.0	350.0	**599.0**	543.4	547.6
13	Tangible assets	**138.6**	139.2	129.7	**237.2**	216.1	202.9
14	Investments	**45.8**	35.3	25.9	**78.4**	54.8	40.5
		534.4	524.5	505.6	**914.6**	814.3	791.0
	Current assets						
15	Stocks and work in progress	**94.1**	92.5	103.8	**161.0**	143.6	162.4
16	Debtors	**765.0**	803.4	673.9	**1,309.1**	1,247.4	1,054.4
17	Debtors within working capital facility:						
	Gross debts	**264.1**	245.1	200.6	**452.0**	380.5	313.8
	Non-returnable proceeds	**(175.0)**	(160.3)	(112.1)	**(299.5)**	(248.9)	(175.4)
		89.1	84.8	88.5	**152.5**	131.6	138.4
	Cash at bank and in hand	**412.2**	376.0	314.6	**705.4**	583.8	492.2
		1,360.4	1,356.7	1,180.8	**2,328.0**	2,106.4	1,847.4
18	**Creditors:** amounts falling due within one year	**(1,508.0)**	(1,521.7)	(1,327.5)	**(2,580.6)**	(2,362.6)	(2,076.9)
	Net current liabilities	**(147.6)**	(165.0)	(146.7)	**(252.6)**	(256.2)	(229.5)
	Total assets less current liabilities	**386.8**	359.5	358.9	**662.0**	558.1	561.5
19	**Creditors:** amounts falling due after more than one year	**(281.7)**	(328.7)	(387.7)	**(482.1)**	(510.3)	(606.6)
20	**Provisions for liabilities and charges**	**(78.2)**	(88.8)	(76.9)	**(133.8)**	(137.9)	(120.3)
	Net assets/(liabilities)	**26.9**	(58.0)	(105.7)	**46.1**	(90.1)	(165.4)
	Capital and reserves						
22,23	Called up share capital	**74.1**	73.7	72.6	**126.8**	114.4	113.5
23	Share premium account	**416.5**	409.0	406.9	**712.8**	635.0	636.7
23	Goodwill write off reserve	**(1,068.8)**	(1,040.2)	(1,032.9)	**(1,829.0)**	(1,615.0)	(1,616.0)
23	Other reserves	**117.8**	97.4	103.7	**201.6**	151.2	162.2
23	Profit and loss account	**482.7**	397.7	339.8	**826.0**	617.5	531.6
	Share owners' funds	**22.3**	(62.4)	(109.9)	**38.2**	(96.9)	(172.0)
	Minority interests	**4.6**	4.4	4.2	**7.9**	6.8	6.6
	Total capital employed	**26.9**	(58.0)	(105.7)	**46.1**	(90.1)	(165.4)

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

Signed on behalf of the Board on 2 May 1997:

M S Sorrell

Group chief executive

P W G Richardson

Group finance director

Notes to the consolidated profit and loss account

1 Segment information

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

Contributions by geographical area were as follows:

	1996 £m	Change %	1995 £m	Change %	1994 £m
Turnover					
United Kingdom	**770.4**	6.2%	725.2	1.0%	718.4
United States	**3,043.9**	11.4%	2,733.3	4.7%	2,611.6
Continental Europe	**1,595.6**	2.9%	1,550.9	15.1%	1,347.6
Asia Pacific, Latin America, Africa & Middle East	**1,674.1**	8.4%	1,543.7	15.5%	1,336.1
	7,084.0	8.1%	6,553.1	9.0%	6,013.7
Revenue					
United Kingdom	**317.3**	7.1%	296.1	5.0%	282.1
United States	**667.2**	12.2%	594.8	3.2%	576.2
Continental Europe	**352.6**	2.6%	343.6	18.1%	290.9
Asia Pacific, Latin America, Africa & Middle East	**354.2**	10.5%	320.4	15.4%	277.7
	1,691.3	8.8%	1,554.9	9.0%	1,426.9
Operating profit					
United Kingdom	**28.0**	22.8%	22.8	54.1%	14.8
United States	**77.5**	27.7%	60.7	12.6%	53.6
Continental Europe	**38.8**	-1.0%	39.2	58.7%	24.7
Asia Pacific, Latin America, Africa & Middle East	**38.1**	42.2%	26.8	-2.2%	27.4
	182.4	22.0%	149.5	24.1%	120.5

There is no significant cross-border trading.

Contributions by operating sector were as follows:

	1996 £m	Change %	1995 £m	Change %	1994 £m
Turnover					
Advertising	**6,023.6**	7.3%	5,613.9	9.3%	5,137.5
Information and consultancy	**273.0**	9.9%	248.5	9.6%	226.7
Public relations and public affairs	**106.5**	8.9%	97.8	1.9%	96.0
Specialist communications	**680.9**	14.8%	592.9	7.1%	553.5
	7,084.0	8.1%	6,553.1	9.0%	6,013.7
Revenue					
Advertising	**930.2**	7.6%	864.8	11.7%	774.4
Information and consultancy	**273.0**	9.9%	248.5	9.6%	226.7
Public relations and public affairs	**106.5**	8.9%	97.8	1.9%	96.0
Specialist communications	**381.6**	11.0%	343.8	4.2%	329.8
	1,691.3	8.8%	1,554.9	9.0%	1,426.9
Operating profit/(loss)					
Advertising	**125.3**	15.5%	108.5	18.4%	91.6
Information and consultancy	**22.0**	19.6%	18.4	44.9%	12.7
Public relations and public affairs	**3.7**	260.9%	(2.3)	61.0%	(5.9)
Specialist communications	**31.4**	26.1%	24.9	12.7%	22.1
	182.4	22.0%	149.5	24.1%	120.5

2 Operating expenses

	1996 £m	1995 £m	1994 £m
Total staff costs (note 3)	**852.4**	799.2	736.3
Establishment costs	**137.0**	132.1	125.5
Other operating expenses (net)	**276.6**	260.9	233.8
Share of profits of associated undertakings before tax	**(12.3)**	(14.5)	(12.3)
Loss on sale of tangible fixed assets	**0.4**	0.8	0.1
	1,254.1	1,178.5	1,083.4
Operating expenses include:			
Depreciation	**28.4**	26.2	26.6
Property operating lease rentals	**81.7**	86.0	90.7
Auditors' remuneration:			
Audit fees			
– Arthur Andersen	**1.8**	1.8	1.8
– other	**0.3**	0.3	0.3
	2.1	2.1	2.1
Fees in respect of other advisory work	**2.0**	1.8	2.6

2 Operating expenses continued

Minimum committed annual rentals

Amounts payable in 1997 under the foregoing leases will be as follows:

	Plant and machinery			Property		
	1997 £m	1996 £m	1995 £m	**1997 £m**	1996 £m	1995 £m
In respect of operating leases which expire:						
– within 1 year	**4.7**	4.9	5.6	**7.9**	14.9	8.8
– within 2-5 years	**9.1**	11.2	10.1	**15.6**	9.6	21.6
– after 5 years	**0.3**	0.9	-	**45.7**	55.4	58.7
	14.1	17.0	15.7	**69.2**	79.9	89.1

Future minimum annual amounts payable under lease commitments in existence at 31 December 1996 are as follows:

	Minimum rental payments £m	Less sublet rentals £m	Net payment £m
Year ended 31 December			
1997	83.3	(4.3)	79.0
1998	79.1	(4.1)	75.0
1999	77.3	(4.1)	73.2
2000	70.6	(3.8)	66.8
2001	66.0	(3.6)	62.4
Later years (to 2009)	371.9	(20.6)	351.3
	748.2	(40.5)	707.7

3 Our people

Our staff numbers averaged 21,166 against 20,152 in 1995, up 5.0%. Their geographical distribution was as follows:

	1996 Number	1995 Number	1994 Number
United Kingdom	**3,673**	3,503	3,327
United States	**6,387**	6,164	6,191
Continental Europe	**4,004**	3,793	3,646
Asia Pacific, Latin America, Africa & Middle East	**7,102**	6,692	6,034
	21,166	20,152	19,198

At the end of 1996 staff numbers were 22,102 compared with 20,412 at the end of 1995, operating from over 800 offices in 90 countries.

Total staff costs were made up as follows:

	1996 £m	1995 £m	1994 £m
Wages and salaries	**613.8**	569.3	526.4
Payments and provisions charged under short- and long-term incentive plans	**56.7**	49.3	36.0
Social security costs	**70.4**	66.7	63.2
Other pension costs	**22.9**	25.1	22.7
Other staff costs	**88.6**	88.8	88.0
	852.4	799.2	736.3
Staff cost to revenue ratio	**50.4%**	51.4%	51.6%

Directors' emoluments are disclosed on page 42.

4 Net interest payable and similar charges

	1996 £m	1995 £m	1994 £m
On bank loans and overdrafts, and other loans			
– repayable within five years, by instalments	**21.5**	26.1	25.4
– repayable within five years, not by instalments	**8.0**	9.7	9.7
– on all other loans	**0.2**	0.5	0.5
Interest payable	**29.7**	36.3	35.6
Interest receivable	**(11.5)**	(10.8)	(8.8)
Net interest payable	**18.2**	25.5	26.8
Charges in respect of working capital facilities	**10.9**	10.3	8.4
	29.1	35.8	35.2

Net interest payable fell to £18.2 million from £25.5 million, reflecting improved profitability and cash flow, and lower US interest rates.

In previously reported figures the working capital facility charges were charged against operating profits.

The weighted average interest rate on short-term borrowings at 31 December 1996 was 6.4% (1995: 6.8% and 1994: 7.8%). The effective interest rate on long-term borrowings was 6.9% as at 31 December 1996 (1995: 7.3%; 1994: 7.2%), including a margin of 1.1% over US dollar LIBOR.

Derivative financial instruments

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

	1996		1995		1994	
	Swaps	Caps	Swaps	Caps	Swaps	Caps
Notional principal amount	**$300m**	**nil**	$300m	$100m	$200m	$300m
Average pay rate	**5.79%**	**n/a**	5.79%	n/a	5.64%	n/a
Average receive rate	**LIBOR**	**n/a**	LIBOR	n/a	LIBOR	n/a
Average fixed cap rate	**n/a**	**n/a**	n/a	5.50%	n/a	5.83%
Average term	**6 monthly**	**n/a**	6 monthly	6 monthly	6 monthly	6 monthly
Latest maturity date	**Jan 2001**	**n/a**	Jan 2001	Jan 1998	Jan 1999	Jan 1998

4 Net interest payable and similar charges continued

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

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

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

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

The Group does not utilise any other derivative financial instruments.

5 Tax on profit on ordinary activities

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

	1996 £m	1995 £m	1994 £m
Corporation tax at 33% (1995 and 1994: 33%)	**4.2**	-	0.1
Deferred taxation	**-**	0.8	3.7
Overseas taxation	**40.2**	31.9	25.4
Tax on profits of associate companies	**5.4**	6.8	4.3
Advance corporation tax written off	**0.8**	3.7	2.3
	50.6	43.2	35.8
Effective tax rate on profit before tax	**33%**	38%	42%

The following table reconciles the Group's tax to the United Kingdom statutory rate of 33%:

	1996 £m	1995 £m	1994 £m
Tax on pre-tax income at statutory rates of 33%	**50.6**	37.5	28.1
Effects of:			
Permanent differences between expenditures charged in arriving at income and expenditures allowed for tax purposes	**3.7**	(1.7)	4.8
Utilisation of tax losses brought forward	**(7.3)**	(1.6)	(7.0)
Unused tax losses carried forward	**2.6**	2.7	1.7
Differences between UK and overseas statutory standard tax rates	**0.2**	2.6	5.9
Advance corporation tax written off	**0.8**	3.7	2.3
Tax on profit on ordinary activities	**50.6**	43.2	35.8

6 Ordinary and preference dividends

Ordinary dividend

	1996	1995	1994	1996 £m	1995 £m	1994 £m
	Pence per share (net)					
Interim dividend paid	**0.556p**	0.445p	0.385p	**4.1**	3.3	2.8
Final dividend proposed	**1.144p**	0.865p	0.750p	**8.3**	6.4	5.4
	1.7p	1.31p	1.135p	**12.4**	9.7	8.2

Preference dividends totalling £1.1 million (1.7¢ per share) were paid in 1994 in respect of the Group's Convertible Cumulative Redeemable Preference shares, which were converted into ordinary shares in early 1995.

7 Earnings per ordinary share

Basic earnings per share have been calculated using earnings of £100.0 million (1995: £68.7 million, 1994: £46.3 million) and weighted average shares in issue during the year of 728,263,475 shares (1995: 722,550,473 shares, 1994: 589,802,460 shares).

Fully diluted earnings per share have been calculated on a weighted average of 767,570,424 shares (1995: 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.

Notes to the consolidated cash flow statement

8 Sources of finance

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

	1996 Shares £m	1996 Debt £m	1995 Shares £m	1995 Debt £m	1994 Shares £m	1994 Debt £m
Analysis of changes in financing during 1996, 1995 and 1994						
Beginning of year	**482.7**	**270.8**	479.5	306.5	455.1	371.6
Conversion of Convertible Cumulative Redeemable Preference shares	**-**	**-**	1.0	-	23.6	-
Other issues of share capital	**7.9**	**-**	2.2	-	0.8	-
Repayment of bank loans	**-**	**(40.5)**	-	(20.6)	-	(47.2)
Increase/(reduction) in drawings on bank loans	**-**	**4.4**	-	(12.1)	-	(1.4)
Amortisation/(payment) of financing costs included in net debt	**-**	**1.2**	-	(5.4)	-	-
Exchange adjustments on long-term borrowings	**-**	**(20.5)**	-	2.4	-	(19.3)
Loan notes issued in respect of acquisitions in prior years	**-**	**-**	-	-	-	2.8
End of year	**490.6**	**215.4**	482.7	270.8	479.5	306.5

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

Shares

At 31 December 1996, the Company's share base was entirely composed of ordinary equity share capital and share premium of £490.6 million (1995: £482.7 million, 1994: equity share capital and share premium of £473.1 million and non-equity interests of £6.4 million), further details of which are disclosed in notes 22 and 23.

Debt

Credit Facility Agreement

The majority of the Group's debt is funded under a $800 million syndicated Credit Facility Agreement dated August 1995. The initial facility comprised $400 million of term debt and a $400 million working capital facility, which covered the majority of its facility requirements. At the year-end term borrowings of $325 million were outstanding (1995: $380 million) and are repayable in instalments of $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 1996 totalled $354.1 million (1995: $420.2 million).

Interest on the majority of the Group's borrowings is payable at a margin of between 0.75% and 1.375% over US dollar LIBOR (determined by the level of borrowing and on certain covenant conditions being met) and, for a significant proportion of borrowings, is hedged for the next three to four years at US dollar LIBOR rates of 6% or less (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.

Other facilities

The Group's debt also included amounts funded by certain other medium-term financing arrangements, and unsecured loan notes which were repaid during 1996.

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

	1996 £m	Change in year £m	1995 £m	Change in year £m	1994 £m
Debt					
Within 1 year	**(48.1)**	(9.9)	(38.2)	(22.5)	(15.7)
Between 1 and 2 years	**(43.8)**	(0.1)	(43.7)	1.2	(44.9)
Between 2 and 5 years	**(122.6)**	65.3	(187.9)	57.0	(244.9)
Over 5 years – by instalments	**(0.9)**	0.1	(1.0)	0.0	(1.0)
Debt financing under the Credit Facility Agreement and from unsecured loan notes	**(215.4)**	55.4	(270.8)	35.7	(306.5)
Short-term bank loans and overdrafts – within 1 year	**(37.6)**	(3.8)	(33.8)	12.3	(46.1)
Cash at bank and in hand	**412.2**	36.2	376.0	61.4	314.6
Net funds/(debt)	**159.2**	87.8	71.4	109.4	(38.0)

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

Notes		1996 £m	1995 £m	1994 £m
	Operating profit	**182.4**	149.5	120.5
13	Depreciation charge	**28.4**	26.2	26.6
	Decrease in working capital and provisions	**33.7**	68.8	27.1
	Share of associated undertaking profits before tax	**(12.3)**	(14.5)	(12.3)
14	Dividends and other receipts from associated undertakings	**5.1**	5.0	4.5
	Profit of associates less dividend received	**(7.2)**	(9.5)	(7.8)
	Loss on sale of tangible fixed assets	**0.4**	0.8	0.1
	Net cash inflow from operating activities	**237.7**	235.8	166.5

The following table analyses the changes in working capital and provisions in 1996, 1995 and 1994 that have contributed to the net cash inflow from operating activities in the consolidated cash flow statement:

	1996 £m	1995 £m	1994 £m
Analysis of change in working capital and provisions during 1996, 1995 and 1994			
(Increase)/decrease in stocks and work in progress	**(8.6)**	12.7	(28.8)
(Increase)/decrease in debtors	**(12.8)**	(107.9)	(95.2)
Increase/(decrease) in creditors – short-term	**53.6**	154.0	164.6
– long-term	**15.4**	0.2	(11.6)
(Decrease)/increase in provisions	**(13.9)**	9.8	(1.9)
Decrease in working capital and provisions	**33.7**	68.8	27.1

10 Analysis of non-operating cash flows

The following tables analyse the items included within the main cash flow headings on page 66:

	1996 £m	1995 £m	1994 £m
Returns on investments and servicing of finance			
Interest and similar charges paid	**(39.1)**	(48.1)	(46.4)
Interest received	**11.7**	10.8	9.4
Dividends paid to minorities	**(0.8)**	(1.3)	(1.5)
Net cash outflow	**(28.2)**	(38.6)	(38.5)
Capital expenditure and financial investment			
Purchase of tangible fixed assets (note 13)	**(35.7)**	(35.0)	(30.0)
Purchase of own shares by ESOP trust (note 14)	**(6.9)**	(6.2)	-
Proceeds from sale of tangible fixed assets	**1.6**	2.1	1.8
Net cash outflow	**(41.0)**	(39.1)	(28.2)
Financing activities			
Net repayment of bank loans	**(40.5)**	(20.6)	(47.8)
Increase/(reduction) in drawings on bank loans	**4.4**	(12.1)	(1.4)
Financing costs	**1.2**	(5.8)	(9.2)
Proceeds from issue of shares	**3.4**	-	-
Net cash outflow	**(31.5)**	(38.5)	(58.4)

11 Segment information

Assets by geographical area were as follows:

	Total assets employed			Non-interest bearing assets/(liabilities)		
	1996 £m	1995 £m	1994 £m	**1996 £m**	1995 £m	1994 £m
United Kingdom	**349.5**	292.5	272.1	**26.7**	13.7	24.1
United States	**497.9**	508.1	558.5	**(260.9)**	(253.7)	(240.2)
Continental Europe	**508.5**	564.5	447.1	**22.1**	30.5	36.3
Asia Pacific, Latin America, Africa & Middle East	**538.9**	516.1	408.7	**79.8**	80.1	112.1
	1,894.8	1,881.2	1,686.4	**(132.3)**	(129.4)	(67.7)
Net interest bearing funds/(debt)				**159.2**	71.4	(38.0)
Net assets/(liabilities) in the consolidated balance sheet				**26.9**	(58.0)	(105.7)

Assets by operating sector were as follows:

	Total assets employed			Non-interest bearing assets/(liabilities)		
	1996 £m	1995 £m	1994 £m	**1996 £m**	1995 £m	1994 £m
Advertising	**1,424.4**	1,511.0	1,282.3	**(123.7)**	(144.4)	(97.2)
Information and consultancy	**101.3**	131.3	119.4	**(0.9)**	1.6	12.1
Public relations and public affairs	**133.8**	62.5	66.5	**4.0**	10.4	12.0
Specialist communications	**235.3**	176.4	218.2	**(11.7)**	3.0	5.4
	1,894.8	1,881.2	1,686.4	**(132.3)**	(129.4)	(67.7)
Net interest bearing funds/(debt)				**159.2**	71.4	(38.0)
Net assets/(liabilities) in the consolidated balance sheet				**26.9**	(58.0)	(105.7)

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

12 Intangible fixed assets

	1996 £m	1995 £m	1994 £m
Corporate brand names	**350.0**	350.0	350.0

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

13 Tangible fixed assets

The movements in 1996 and 1995 were as follows:

	Land and buildings		Fixtures fittings and equipment	
Cost:	Freehold £m	Short leasehold £m	£m	Total £m
1 January 1995	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
31 December 1995	12.3	109.0	162.9	284.2
Additions	1.4	7.1	27.2	35.7
New acquisitions	-	0.1	5.2	5.3
Disposals	(0.5)	(1.6)	(1.6)	(8.7)
Exchange adjustments	(0.9)	(10.3)	(18.7)	(29.9)
31 December 1996	**12.3**	**104.3**	**175.0**	**286.6**
Depreciation:				
1 January 1995	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
31 December 1995	2.7	37.1	105.2	145.0
Charge	0.2	7.0	21.2	28.4
Disposals	(0.3)	(0.6)	(0.8)	(6.7)
Exchange adjustments	(0.2)	(4.9)	(13.6)	(18.7)
31 December 1996	**2.4**	**38.6**	**112.0**	**148.0**
Net book value:				
31 December 1996	**9.9**	**65.7**	**63.0**	**138.6**
31 December 1995	9.6	71.9	57.7	139.2
1 January 1995	9.2	67.5	53.0	129.7

Leased assets (other than leasehold property) included above have a net book value of £1.5 million (1995: £1.6 million, 1994: £2.0 million).

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

	1996 £m	1995 £m	1994 £m
Capital commitments	**0.3**	0.7	0.7

14 Fixed asset investments

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

	Associated undertakings £m	Own shares £m	Other investments £m	Total £m
1 January 1995	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)
31 December 1995	23.6	10.4	1.3	35.3
Additions	1.0	6.9	2.2	10.1
Associates now consolidated	(1.2)	-	-	(1.2)
Share of profits after tax of associated undertakings	6.9	-	-	6.9
Dividends and other receipts	(5.1)	-	-	(5.1)
Exchange adjustments	(0.2)	-	-	(0.2)
31 December 1996	**25.0**	**17.3**	**3.5**	**45.8**

The Group's principal associated undertakings include:

	% owned	Country of incorporation
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, details of which are disclosed in the Compensation committee report on pages 47 to 55.

The trustees of the ESOP purchase the Company's ordinary shares in the open market using funds provided by the Company. The Company also has an obligation to make regular contributions to the ESOP to enable it to meet its administrative costs. 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 1996 was 13,748,628 (1995: 11,282,693, 1994: 5,469,031) and £34.9 million (1995: £18.5 million, 1994: £6.0 million) respectively.

15 Stocks and work in progress

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

	1996 £m	1995 £m	1994 £m
Raw materials and consumables	**0.5**	0.6	0.5
Work in progress	**90.8**	88.5	99.9
Finished goods and goods for resale	**2.8**	3.4	3.4
	94.1	92.5	103.8

Notes to the consolidated balance sheet

16 Debtors

The following are included in debtors:

	1996 £m	1995 £m	1994 £m
Amounts falling due within one year:			
Trade debtors outside working capital facility	**601.1**	638.6	538.5
VAT and sales taxes recoverable	**11.9**	13.6	8.3
Corporate income taxes recoverable	**12.6**	4.1	4.4
Other debtors	**84.7**	83.7	46.0
Prepayments and accrued income	**43.0**	41.3	46.2
	753.3	781.3	643.4
Amounts falling due after more than one year:			
Other debtors	**8.3**	17.2	24.7
Prepayments and accrued income	**3.4**	4.9	5.8
	11.7	22.1	30.5
	765.0	803.4	673.9

Movements on bad debt provisions were as follows:

	1996 £m	1995 £m	1994 £m
Balance at beginning of year	**17.3**	18.5	15.2
Charged/(credited):			
To costs and expenses	**5.1**	3.5	2.8
Exchange adjustments	**(1.8)**	0.6	(0.3)
Other	**(5.9)**	(5.3)	0.8
Balance at end of year	**14.7**	17.3	18.5

The allowance for doubtful debts is equivalent to 2.1% (1995: 2.3%, 1994: 2.9%) of gross trade accounts receivable.

17 Debtors within working capital facility

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

	1996 £m	1995 £m	1994 £m
Gross debts	**264.1**	245.1	200.6
Non-returnable proceeds	**(175.0)**	(160.3)	(112.1)
	89.1	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.

18 Creditors: amounts falling due within one year

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

	1996 £m	1995 £m	1994 £m
Bank loans and overdrafts (note 8)	**85.7**	70.1	57.1
Unsecured loan notes (note 8)	**-**	1.9	4.7
Trade creditors	**952.8**	1,008.7	861.5
Corporate income taxes payable	**38.8**	23.5	24.3
Other taxation and social security	**57.7**	60.6	46.9
Dividends proposed	**8.3**	6.4	5.5
Other creditors and accruals	**263.6**	273.8	286.4
Deferred income	**101.1**	76.7	41.1
	1,508.0	1,521.7	1,327.5

Bank loans and overdrafts include overdrafts of £37.6 million (1995: £33.8 million, 1994: £46.1 million).

19 Creditors: amounts falling due after more than one year

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

	1996 £m	1995 £m	1994 £m
Bank loans	**167.3**	230.8	287.2
Unsecured loan notes	**-**	1.8	3.6
Corporate income taxes payable	**65.3**	66.7	58.2
Other creditors and accruals	**49.1**	29.4	38.7
	281.7	328.7	387.7

Further details of the Group's bank loans and loan notes are included in note 8.

20 Provisions for liabilities and charges, and contingent liabilities

The movement in the year on provisions comprises:

	Deferred taxation £m	Pension and other £m	Property £m	Long-term incentive plans £m	Total £m
1 January 1995	7.5	43.1	13.2	13.1	76.9
Charged to the profit and loss account	0.8	5.8	-	16.2	22.8
Utilised	-	(0.7)	(6.2)	(7.5)	(14.4)
Transfers	(1.4)	(0.3)	3.2	-	1.5
Exchange adjustments	(0.2)	2.1	0.1	-	2.0
31 December 1995	6.7	50.0	10.3	21.8	88.8
Charged in profit and loss account	-	5.0	-	14.2	19.2
Utilised	-	(2.3)	(2.0)	(12.6)	(16.9)
Transfers	3.0	(0.9)	(8.3)	-	(6.2)
Exchange adjustments	0.2	(6.1)	-	(0.8)	(6.7)
31 December 1996	**9.9**	**45.7**	**-**	**22.6**	**78.2**

Deferred taxation

Deferred tax has been provided to the extent that the directors have concluded that it is probable that liabilities will crystallise. No provision is made for tax that would arise on the remittance of overseas earnings. There is no material unprovided deferred tax at 31 December 1996.

	1996 £m	1995 £m	1994 £m
Deferred tax assets:			
Unutilised tax losses	**26.8**	31.3	39.7
Deferred compensation	**27.1**	26.2	19.3
Acquistion related provisions (principally property, working capital and staff-related liabilities)	**9.9**	15.9	22.9
Advance corporation tax written off	**6.8**	6.0	2.3
Other	**5.0**	5.8	4.1
Intercompany interest payable not paid	**-**	3.7	8.6
External interest payable not paid	**2.4**	2.3	3.9
	78.0	91.2	100.8
Less:			
Provision against deferred tax assets	**66.4**	77.9	87.1
Deferred tax liabilities:			
Accelerated capital allowances	**6.7**	6.4	7.8
Interest receivable	**12.7**	12.8	10.9
Other	**2.1**	0.8	2.5
Temporary timing differences	**21.5**	20.0	21.2
	9.9	6.7	7.5

The provision against deferred tax assets represents a provision for uncertainty as to the realisation of the Group's deferred tax assets. The net decrease in the year in the total provision was £11.5 million (1995: £9.2 million; 1994: £9.2 million).

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

Pension provisions and pension arrangements

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

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

The Group's pension costs are analysed as follows:

	1996 £m	1995 £m	1994 £m
Defined contribution schemes	**15.4**	16.9	14.8
Defined benefit schemes	**7.5**	8.2	7.9
	22.9	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.

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

	1996 per annum	1995 per annum	1994 per annum
Assumptions			
Return on plan assets	**9%**	9%	9%
Salary increases	**5-8%**	4-8%	4-8%
Pension increases	**3-6%**	3-6%	3-6%
Assessments			
Market value of plan assets at year end	**£121m**	£99.2m	£112m
Value of assets to benefits ratio	**103%**	102%	104%

Other provisions

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

Long-term incentive plans are operated by certain of the Group's subsidiaries, the provision representing accrued compensation to 31 December 1996 that may become payable after more than one year, as described in the Compensation committee report on pages 47 to 55.

Contingent liabilities

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

21 Fair value of financial instruments

Derivative financial instruments

The fair value of derivatives, based on the amount that would be received if the Group had sought to enter into such financial instruments, based on quoted market prices where possible, was as follows:

	31 March 1997		31 December 1996	
	Swaps £m	Caps £m	Swaps £m	Caps £m
Fair value	**5.0**	**n/a**	2.1	n/a
Book value	**nil**	**n/a**	nil	n/a

Non-derivative financial instruments

The Group estimates that the aggregate fair value of non-derivative financial instruments at 31 December 1996 does not differ materially from their aggregate carrying values recorded in the consolidated balance sheet.

The Group has used the methods and assumptions detailed below to estimate the fair values of the Group's financial instruments at 31 December 1996.

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

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

22 Authorised and issued share capital

	1996 Number m	1996 £m	1995 Number m	1995 £m	1994 Number m	1994 £m
Authorised:						
Equity ordinary shares of 10p each	**1,000**	**100.0**	1,000	100.0	799.7	80.0
Equity unclassified shares of $0.10 each	-	-	236.8	15.2	226.2	14.5
Non-equity Convertible Cumulative Redeemable Preference (CCRP) shares of $0.10 each	-	-	23.0	1.2	33.5	1.8

	1996 Number m	1996 £m	1995 Number m	1995 £m	1994 Number m	1994 £m
Issued:						
Equity ordinary shares of 10p each	**741.4**	**74.1**	737.0	73.7	720.5	72.0
Non-equity Convertible Cumulative Redeemable Preference (CCRP) shares of $0.10 each	-	-	-	-	10.5	0.6

Movements in each year are shown in note 23.

At the 1996 annual general meeting, share owners approved a resolution cancelling all outstanding authorised unclassified shares and CCRP shares.

Warrants

5,071,025 subscription warrants, each of which carried 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, expired during the year.

Share options

As at 31 December 1996, unexercised options totalling 33,637,466 have been granted under the WPP Executive Share Option Scheme as follows:

Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
76,671	6.46	1990 – 1997
112,581	5.89	1990 – 1997
140,028	4.12	1991 – 1998
104,120	4.06	1991 – 1998
185,211	4.29	1991 – 1998
113,165	5.49	1994 – 1999
151,782	6.20	1994 – 1999
36,938	5.43	1995 – 2000
73,606	3.97	1995 – 2000
707,383	1.33	1996 – 2001
1,186,197	0.56	1997 – 2002

Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
990,089	0.295	1995 – 2002
1,052,064	0.525	1996 – 2003
896,800	1.02	1996 – 2003
381,006	1.15	1997 – 2004
6,488,364	1.19	1997 – 2004
2,294,531	1.08	1998 – 2005
7,559,589	1.54	1998 – 2005
1,189,100	1.54	2000 – 2005
68,967	1.58	1998 – 2005
2,347,695	2.14	1999 – 2006
7,481,579	2.335	1999 – 2006

23 Share owners' funds

Movements during the year were as follows:

	Ordinary share capital £m	CCRP share capital £m	Share premium account £m	Goodwill write off reserve £m	Other reserves £m	Profit and loss account £m	Total £m
Balance at 1 January 1994	**52.0**	**9.6**	**393.5**	**(829.1)**	**100.5**	**111.7**	**(161.8)**
1994 movements							
Transfer from special reserve to profit and loss account	-	-	-	(190.0)	-	190.0	-
Conversion of Convertible Cumulative Redeemable Preference shares into ordinary shares	19.2	(9.0)	13.4	-	(23.6)	-	-
Other ordinary shares issued	0.8	-	-	8.5	-	-	9.3
Write off of goodwill arising on consolidation in the year	-	-	-	(22.3)	-	-	(22.3)
Currency translation movement	-	-	-	-	26.8	-	26.8
Retained profit for the financial year	-	-	-	-	-	38.1	38.1
Balance at 31 December 1994	**72.0**	**0.6**	**406.9**	**(1,032.9)**	**103.7**	**339.8**	**(109.9)**
1995 movements							
Conversion of Convertible Cumulative Redeemable Preference shares into ordinary shares	1.2	(0.6)	0.4	-	(1.0)	-	-
Other ordinary shares issued	0.5	-	1.7	2.9	-	(1.1)	4.0
Write off of goodwill arising on consolidation in the year	-	-	-	(10.2)	-	-	(10.2)
Currency translation movement	-	-	-	-	(5.3)	-	(5.3)
Retained profit for the financial year	-	-	-	-	-	59.0	59.0
Balance at 31 December 1995	**73.7**	**-**	**409.0**	**(1,040.2)**	**97.4**	**397.7**	**(62.4)**
1996 movements							
Ordinary shares issued	0.4	-	7.5	-	-	(4.5)	3.4
Write off of goodwill arising on consolidation in the year	-	-	-	(28.6)	-	-	(28.6)
Currency translation movement	-	-	-	-	22.3	-	22.3
Retained profit for the financial year	-	-	-	-	-	87.6	87.6
Transfers between reserves	-	-	-	-	(1.9)	1.9	-
Balance at 31 December 1996	**74.1**	**-**	**416.5**	**(1,068.8)**	**117.8**	**482.7**	**22.3**

23 Share owners' funds continued

Reserves as at 31 December 1996 were composed entirely of equity interests.

Other reserves at 31 December 1996 comprise: capital reserve nil (1995: £1.9 million, 1994: £1.9 million), currency translation deficit £57.2 million (1995: £79.5 million, 1994: £73.2 million), and revaluation reserve £175.0 million (1995: £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 £1,189.1 million.

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

24 Acquisitions and disposals

The Group did not make any material acquisitions or disposals during 1996.

25 Principal operating subsidiary undertakings

A list of the principal operating subsidiary undertakings is given on page 1. The Company directly or indirectly holds 100% of the issued share capital of these undertakings with the exception of The Grass Roots Group, and The Futures Group in which the Company indirectly holds 48% and 25% respectively of the issued share capital.

Company balance sheet

As at 31 December 1996

Notes		1996 £m	1995 £m	1994 £m
	Fixed assets			
	Tangible assets	**1.5**	1.2	1.0
26	Investments	**974.7**	930.7	803.6
		976.2	931.9	804.6
	Current assets			
27	Debtors (including amounts falling due after more than one year)	**259.7**	357.4	282.8
	Cash at bank and in hand	**32.4**	7.2	35.5
		292.1	364.6	318.3
28	**Creditors:** amounts falling due within one year	**(159.7)**	(346.4)	(177.9)
	Net current assets	**132.4**	18.2	140.4
	Total assets less current liabilities	**1,108.6**	950.1	945.0
29	**Creditors:** amounts falling due after more than one year	**(301.1)**	(142.3)	(188.5)
	Net assets	**807.5**	807.8	756.5
	Capital and reserves			
30	Called up share capital	**74.1**	73.7	72.6
30	Share premium account	**416.5**	409.0	406.9
30	Merger reserve	**120.5**	120.5	117.6
30	Currency translation reserve	**(33.2)**	(33.2)	(32.2)
30	Profit and loss account	**229.6**	237.8	191.6
	Total capital employed	**807.5**	807.8	756.5

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

Signed on behalf of the Board on 2 May 1997:
M S Sorrell
Group chief executive

P W G Richardson
Group finance director

As provided by Section 230, Companies Act 1985, the profit and loss account for the Company has not been presented. Included within the consolidated profit and loss account for the financial year is a profit of £4.2 million (1995: profit of £55.9 million, 1994: loss of £6.5 million) in respect of the Company.

26 Fixed asset investments and tangible fixed assets

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

	Subsidiary undertakings £m	Own shares £m	Total £m
1 January 1995	799.4	4.2	803.6
Additions	120.9	6.2	127.1
31 December 1995	920.3	10.4	930.7
Additions	37.1	6.9	44.0
31 December 1996	**957.4**	**17.3**	**974.7**

Further details of the Company's holdings of own shares are detailed in note 14 to the consolidated balance sheet. There were no significant movements in tangible fixed assets during the year.

27 Debtors

The following are included in debtors:

	1996 £m	1995 £m	1994 £m
Amounts owed by subsidiary undertakings	**217.4**	350.8	278.2
Other debtors	**42.3**	6.2	4.3
Prepayments and accrued income	-	0.4	0.3
	259.7	357.4	282.8

Included within amounts owed by subsidiary undertakings are loans totalling £186.4 million (1995: £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:

	1996 £m	1995 £m	1994 £m
Bank loans and overdrafts	**27.2**	23.4	21.2
Unsecured loan notes	-	-	2.8
Amounts due to subsidiary undertakings	**116.9**	305.7	137.8
Taxation and social security	-	0.1	2.8
Dividends proposed	**8.3**	6.4	5.5
Other creditors and accruals	**7.3**	10.8	7.8
	159.7	346.4	177.9

Notes to the Company balance sheet

29 Creditors: amounts falling due after more than one year

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

	1996 £m	1995 £m	1994 £m
Bank loans	**12.5**	29.5	10.9
Amounts due to subsidiary undertakings	**270.6**	104.4	177.6
Other creditors and accruals	**18.0**	8.4	-
	301.1	142.3	188.5

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

	1996 £m	1995 £m	1994 £m
Within 1 year	**-**	-	24.0
Within 2-5 years	**12.5**	29.5	10.9
	12.5	29.5	34.9

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

30 Share owners' funds

Movements during the year were as follows:

	Share capital £m	Share premium account £m	Merger reserve £m	Currency translation reserve £m	Profit and loss account £m
Balance at beginning of year	73.7	409.0	120.5	(33.2)	237.8
Shares issued	0.4	7.5	-	-	-
Retained profit for the financial year	-	-	-	-	(8.2)
Balance at end of year	**74.1**	**416.5**	**120.5**	**(33.2)**	**229.6**

Reserves as at 31 December 1996 were entirely attributable to equity interests. At 31 December 1996 the Company's distributable reserves amounted to £229.6 million. Further details of the Company's movements in share capital are shown in note 23.

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

Notes		For the year ended 31 December 1996 £m	1995 £m	1994 £m
	Net income before dividends			
	Net income before dividends under UK GAAP	**100.0**	68.7	47.4
	US GAAP adjustments:			
1	Amortisation of goodwill and other intangibles	**(35.2)**	(35.7)	(34.7)
1	Deferred tax items	**7.4**	-	-
1	Executive compensation	**(5.1)**	-	-
1	Amortisation of July 1992 capital restructuring costs	**-**	(7.3)	(3.2)
1	Amortisation of Convertible Cumulative Redeemable Preference share issue costs	**-**	-	(4.1)
		(32.9)	(43.0)	(42.0)
	Net income as adjusted for US GAAP	**67.1**	25.7	5.4
	Primary earnings per share as adjusted for US GAAP	**9.2p**	3.6p	0.7p
	Calculation of primary earnings per share:			
	Net earnings per share	**9.2p**	3.6p	0.9p
	Preference dividend accrued per share	**-**	-	(0.2)p
	Primary earnings per share	**9.2p**	3.6p	0.7p

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 7 to the consolidated profit and loss account.

		As at 31 December 1996 £m	1995 £m	1994 £m
	Share owners' funds			
	Share owners' funds under UK GAAP	**22.3**	(62.4)	(109.9)
	US GAAP adjustments:			
1	Capitalisation of goodwill arising on acquisition (net of accumulated amortisation and amounts capitalised under UK GAAP)	**926.7**	1,054.7	1,021.6
1	Reversal of revaluation of corporate brand names	**(175.0)**	(175.0)	(175.0)
1	Shares owned by Employee Share Option Plan (ESOP)	**(17.3)**	(10.4)	(4.2)
1	Deferred tax items	**7.4**	-	-
1	Reclassification of Convertible Cumulative Redeemable Preference shares to long-term creditors, net of issue costs carried forward	**-**	-	(7.4)
1	Proposed final ordinary dividend, not yet declared	**8.3**	6.4	5.4
1	Cost of July 1992 capital restructuring carried forward for future amortisation	**-**	-	7.3
	Other	**(4.6)**	(4.9)	(5.1)
		745.5	870.8	842.6
2	Share owners' funds as adjusted for US GAAP	**767.8**	808.4	732.7

Gross goodwill capitalised under US GAAP (before accumulated amortisation) amounted to £1,182.3 million at 31 December 1996 (1995: £1,300.9 million, 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.

Notes to the Reconciliation to US Accounting Principles

1 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:

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.

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.

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

Dividends

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

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.

Deferred tax

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

Executive compensation

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

Cash flows

Under UK GAAP the Group complies with the Financial Reporting Standard No 1 Revised 'Cash Flow Statements' (FRS1 Revised), the objective and principles of which are similar to those set out in SFAS 95 'Statement of Cash Flows' (SFAS). The principal difference between the two standards is in respect of classification. Under FRS1

Revised, the Group presents its cash flows for (a) operating activities; (b) returns on investments and servicing of finance; (c) taxation; (d) investing activities; (e) equity dividends paid and (f) financing activities. SFAS 95 requires only three categories of cash flow activity (a) operating; (b) investing; and (c) financing. Cash flows arising from taxation and returns on investment and servicing of finance under FRS1 Revised would be included as a financing activity under SFAS 95.

Payments made against provisions set up on the acquisition of subsidiaries have been included in investing activities in the consolidated statement of cash flows. Under US GAAP these payments would be included in determining net cash provided by operating activities.

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

2 Movement in share owners' funds under US GAAP

	1996 £m	1995 £m	1994 £m
Net income for the year under US GAAP	**67.1**	25.7	5.4
Prior year final dividend	**(6.4)**	(5.4)	(2.8)
Current year interim dividend	**(4.1)**	(3.3)	(3.4)
Preference dividend	**-**	-	(1.1)
Retained earnings/(deficit) for the year	**56.6**	17.0	(1.9)
CCRP debt conversion into ordinary shares of the company	**-**	7.6	126.6
Shares issued in consideration for the acquisition of subsidiary undertakings	**-**	3.2	9.3
Share options exercised	**3.4**	0.8	-
Shares owned by Employee Share Option Plan	**(6.9)**	(6.2)	(4.2)
Exchange adjustments:			
Revaluation of goodwill	**(121.1)**	58.6	12.1
Other	**-**	-	5.1
Foreign currency net investment	**22.3**	(5.3)	26.8
Executive compensation	**5.1**	-	-
New additions to share owners' funds	**(40.6)**	75.7	173.8
Share owners' funds at 1 January	**808.4**	732.7	558.9
Share owners' funds at 31 December	**767.8**	808.4	732.7

3 Other US GAAP disclosures: Pension schemes

As a result of their annual reviews, the Group's actuarial advisers have confirmed that, in respect of the Group's defined benefit pension schemes, there are no material underfunded schemes under Statement of Financial Accounting Standards No. 87, 'Employers' Accounting for Pensions' ('FAS 87'). In performing this review, a discount rate of between 4% and 12% was used.

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

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

4 Recently issued FASB pronouncements

During the year Statements of Financial Accounting Standards (SFAS) Nos 121, 122, 123 and 124 have become effective and have been applied where appropriate. The company has decided that it will continue to account for its stock-based compensation arrangements in accordance with the method prescribed by APB Opinion No 25. The additional disclosures required by SFAS 123 will be included in the company's Form 20-F.

SFAS 125 was issued during the year and will be effective for financial years beginning after 15 December 1996.

Five-year summary

	1996 £m	1995 £m	1994 £m	1993 £m	1992 £m
Profit and loss					
Turnover (gross billings)	**7,084.0**	6,553.1	6,013.7	6,029.9	5,367.1
Revenue	**1,691.3**	1,554.9	1,426.9	1,430.7	1,273.4
Operating profit (1)	**182.4**	149.5	120.5	99.7	75.1
Profit before tax	**153.3**	113.7	85.3	54.4	7.8
Profit for the financial year	**100.0**	68.7	47.4	22.9	(11.9)
Balance sheet					
Fixed assets	**534.4**	524.5	505.6	504.5	517.3
Net current liabilities	**(147.6)**	(165.0)	(146.7)	(149.2)	(60.9)
Creditors: amounts falling due after more than one year	**(281.7)**	(328.7)	(387.7)	(412.3)	(579.7)
Provisions for liabilities and charges	**(78.2)**	(88.8)	(76.9)	(103.9)	(118.6)
Net assets/(liabilities)	**26.9**	(58.0)	(105.7)	(160.9)	(241.9)
Net funds/(debt)	**159.2**	71.4	(38.0)	(83.7)	(239.8)
Average net debt	**(145.0)**	(214.0)	(268.0)	(361.0)	(437.0)

	1996	1995	1994	1993	1992
Our people					
Revenue per employee (£000)	**79.9**	77.2	74.3	70.1	61.6
Operating profit per employee (£000)	**8.6**	7.4	6.3	4.9	3.6
Average headcount	**21,166**	20,152	19,198	20,416	20,664
Share information					
Basic earnings per ordinary share (net basis)	**13.7p**	9.5p	7.9p	4.9p	(8.0)p
Fully diluted earnings per share (net basis) (3)	**13.3p**	9.1p	6.5p	3.4p	n/a
Dividends per share	**1.7p**	1.31p	1.135p	1.0p	-
Dividend cover (2)(3)	**7.8**	6.9	5.7	3.4	n/a
Share price – high	**254p**	168p	132p	107p	102p
– low	**157p**	100p	87p	41p	23p
Market capitalisation at year end (£m)	**1,883.2**	1,208.7	785.3	463.2	104.8

Notes

1 The 1992 results have been restated to take into account the implementation of Financial Reporting Standard 3. The above results have been restated to include the reclassification of the costs of the working capital facility.

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.

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

Information for share owners

Share owners' register

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

Analysis of shareholdings at 31 December 1996

Issued share capital as at 31 December 1996: 741,415,349 ordinary shares.

Number of shares held	Number of owners	%	Total of shares	%
1 – 100	504	8.30	23,870	0.00
101 – 250	374	6.16	71,425	0.01
251 – 500	478	7.88	197,865	0.03
501 – 1,000	819	13.49	698,476	0.09
1,001 – 5,000	2,017	33.23	5,171,407	0.70
5,001 – 10,000	447	7.37	3,316,135	0.45
10,001 – 25,000	368	6.06	6,110,658	0.82
25,001 – 50,000	213	3.51	7,718,987	1.04
50,001 – 100,000	228	3.76	17,615,039	2.38
100,001 – 500,000	376	6.19	89,451,150	12.06
500,001 – 1,000,000	106	1.75	79,042,111	10.66
1,000,001 – 2,000,000	65	1.07	92,956,574	12.54
2,000,001 – 3,000,000	27	0.44	67,648,110	9.13
3,000,001 – 4,000,000	14	0.23	48,049,188	6.48
4,000,001 and above	34	0.56	323,344,354	43.61
Totals	**6,070**	**100.00**	**741,415,349**	**100.00**

Share owners by geography		**Share owners by type**	
United Kingdom	**56%**	Institutional investors	**84%**
United States of America	**40%**	Employees	**10%**
Asia Pacific, Latin America, Africa & Middle East and Continental Europe	**4%**	Other individuals	**6%**
Total	**100%**	Total	**100%**

Dividends

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

	1996	1995	1994	1993	1992
Interim dividend per ordinary share	**0.556p**	0.445p	0.385p	0.35p	nil
Final (1996 proposed) dividend per ordinary share	**1.144p**	0.865p	0.75p	0.65p	nil
	1.70p	1.31p	1.135p	1.00p	nil

American Depositary Receipts (ADRs)

Each ADR represents 10 ordinary shares.

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

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

ADR dividends

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

Dividend cheques are mailed directly to the ADR holder on the payment date if ADRs are registered with WPP's US depositary. Dividends on ADRs that are registered with brokers are sent to the brokers, who forward them to ADR holders. WPP's US depositary is Citibank N.A. (address on page 98).

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

	1996	1995	1994	1993	1992
In sterling					
Interim	**5.56p**	4.45p	3.85p	3.50p	nil
Final (1996 proposed)	**11.44p**	8.65p	7.50p	6.50p	nil
	17.00p	13.10p	11.35p	10.00p	nil
In dollars (1)					
Interim	**8.68¢**	6.81¢	6.00¢ (2)	5.20¢ (2)	nil
Final	**17.86¢**	13.08¢	11.95¢ (2)	9.80¢ (2)	nil
	26.54¢	19.89¢	17.95¢	15.00¢	nil

Notes

1 The ADR dividends represent a sterling liability, but for convenience have been translated to US dollars at the average rate for the year of US$1.5616 to the pound.

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

The figures above include a refund of the related UK tax credit less the UK withholding tax. Since 1993 the tax credit has been one-quarter of the amount of the dividends on the ordinary shares. Prior to 1993 it was one-third. UK withholding tax is 15% of the total of the dividend and the tax credit. For 1996 the total of the declared dividends per ADR is 16.0p, the related tax credit per ADR is 4.0p and the withholding tax per ADR is 3.0p, giving a net UK tax refund of 1.0p per ADR and a total cash payment of 17.0p per ADR.

ADR holders who are US residents for tax purposes may normally credit the withholding tax against their federal income tax liabilities. The UK net tax refund together with the US tax credit can, therefore, effectively increase the value of the gross dividends paid to qualifying ADR holders by up to 25% in sterling terms over the amount of the declared dividends on the underlying ordinary shares. The amount of the credit is specified on Internal Revenue Service Form 1099, which is provided to ADR holders automatically by the depositary agent.

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

Information for share owners

Financial calendar

- The 1996 final dividend will be paid on 14 July 1997 to share owners on the register at 13 June 1997.
- 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:

	1996	1995
Ordinary 10p shares	**254.0p**	164.0p
Subscription warrants (lapsed on 30 June 1996)	**n/a**	3.0p

Within the UK, the latest ordinary share price information is available on Ceefax and Teletext and also the Cityline service operated by the *Financial Times* (telephone 0891 434544 or 0336 434544; calls charged at 50p per minute at all times).

Access numbers

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

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

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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