WPP Group plc

Annual Report and Accounts 1998

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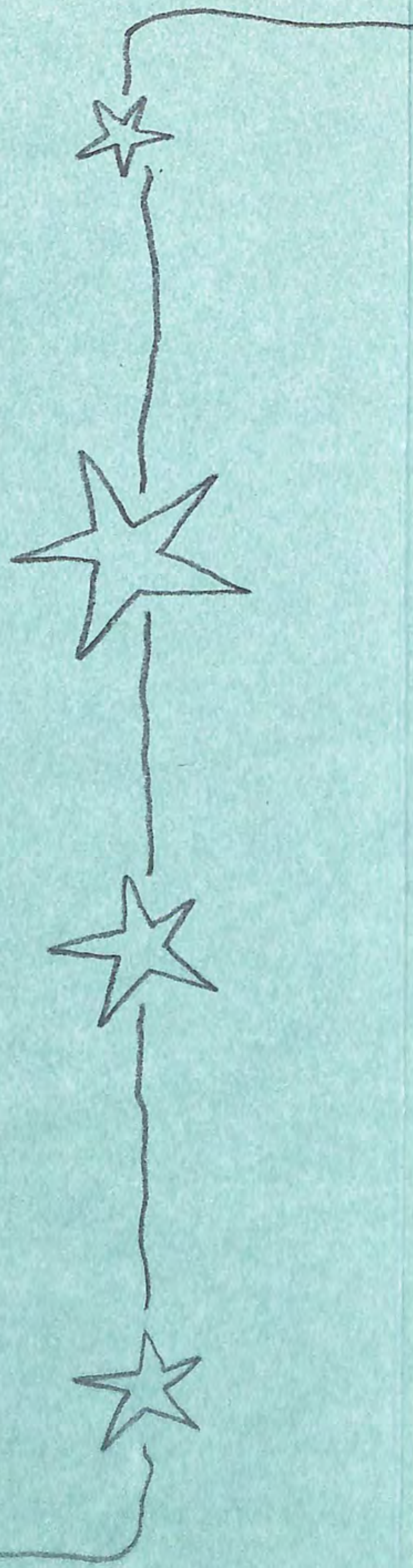
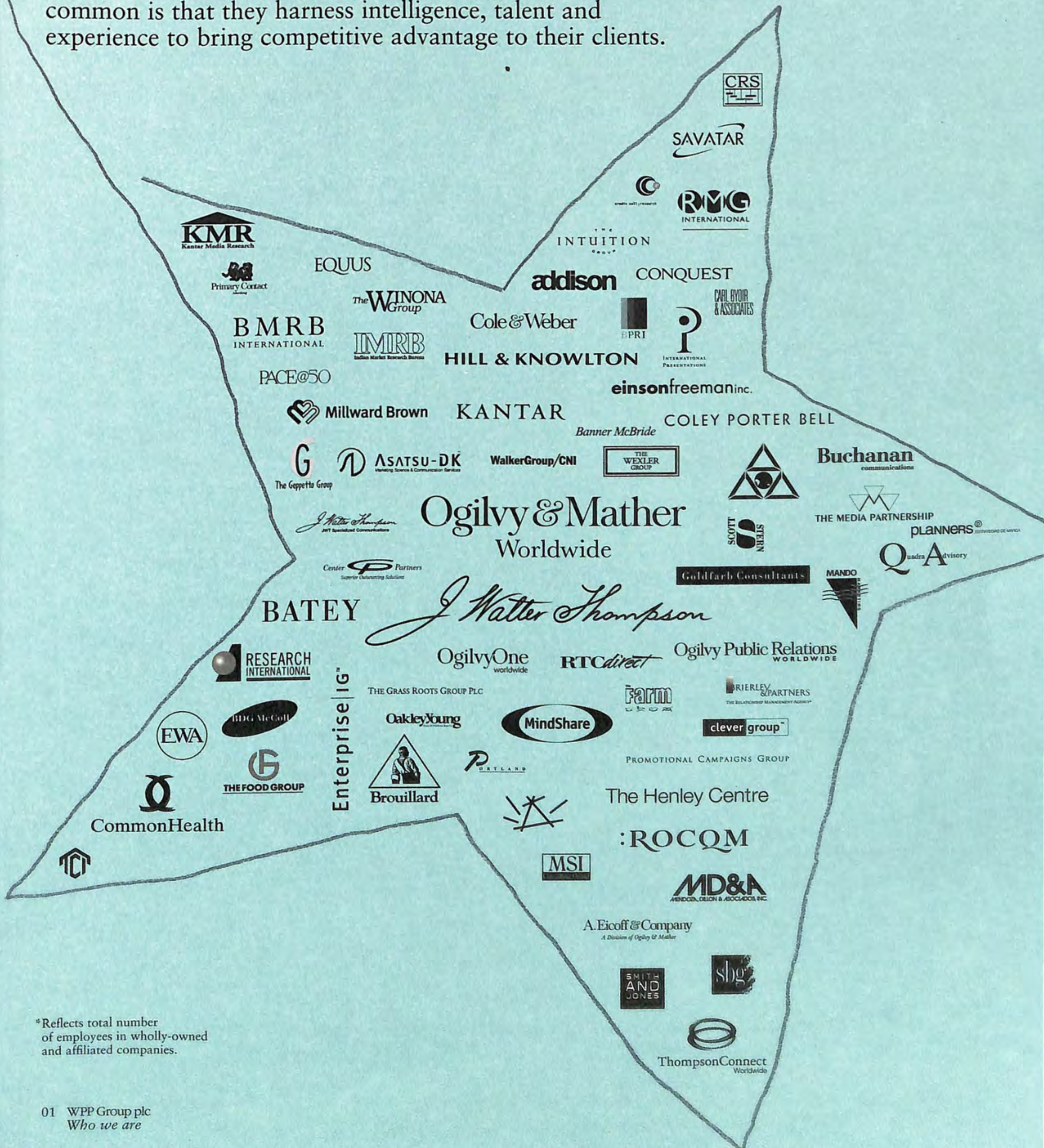


Who we are

The WPP Group provides communications services to clients throughout the world, including more than 300 of the Fortune Global 500. Our 33,000* people work out of 950 offices in 92 countries.

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



*Reflects total number of employees in wholly-owned and affiliated companies.

Our companies and associates

Through our Group companies and associates, WPP offers a comprehensive and, when appropriate, integrated range of communications services to national, multinational and global clients.

Advertising

Ogilvy & Mather Worldwide
www.ogilvy.com

J. Walter Thompson Company
www.jwtworld.com

Conquest

Cole & Weber

Asatsu[1]
www.asatsu-dk.co.jp

Batey[1]
www.bateyads.com.sg

Chime Communications PLC[1]

Equus[1]

Media planning, buying & research

MindShare

Media Insight/Maximize

Portland Outdoor[1]
www.portlandoutdoor.com

The Media Partnership[1]

Tempus Group PLC[2]
www.tempusgroup.com

Information & consultancy

The Kantar Group:

Research International
www.research-int.com

Millward Brown
www.millwardbrown.com

Kantar Media Research
- AGB Italia[2]
- BMRB International
  www.bmrb.co.uk
- IBOPE Media Information[1]
- Symmetrical Resources[1]/Simmons[1]
  www.smrb.com

Goldfarb Consultants
www.goldfarbconsultants.com

IMRB International[1]
www.imrbint.com

Winona Group
www.winonaresearch.com

Center Partners[4]
www.centerpartners.com

Public relations & public affairs

Hill and Knowlton
www.hillandknowlton.com

Ogilvy Public Relations Worldwide
www.ogilvypr.com

Timmons and Company

The Wexler Group
www.wexlergroup.com

Carl Byoir & Associates

Buchanan Communications
www.buchanan.uk.com

Chime Communications PLC[1]

Specialist communications

Branding, identity & corporate consultancy

Addison
www.addison.co.uk

Banner McBride
www.bannermcbride.com

BDG McColl
www.bdgmccoll.com

Brouillard
www.brouillard.com

Coley Porter Bell
www.cpb.co.uk

Enterprise IG
www.enterpriseig.com
– BPRI[2]
www.bpri.co.uk

SBG Enterprise
www.sbg.com

JWT Specialized Communications
www.jwtworks.com

Scott Stern
www.scottstern.co.uk

Direct, promotion & relationship marketing

A. Eicoff & Co
www.eicoff.com

Brierley & Partners[1,4]
www.brierley.com

Credit Call Research[1]

Einson Freeman
www.einsonfreeman.com

EWA

Mando Marketing

Oakley Young
www.oakley-young.co.uk

OgilvyOne Worldwide
www.ogilvyone.com

Primary Contact
www.primary.co.uk

Promotional Campaigns Group

RMG International

ROCQM

RTCdirect
www.rtcdirect.com

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

ThompsonConnect Worldwide

Strategic marketing consulting

The Henley Centre
www.henleycentre.com

Management Ventures
www.mventures.com

MSI Consulting/Charles River Strategies
www.msiconsulting.com/www.crstrat.com

Planners[1]
www.planners.es

Quadra Advisory[1]

Specialist communications

Sector marketing

Demographic marketing

The Geppetto Group
www.geppettogroup.com

The Intuition Group

Mendoza Dillon & Asociados

Foodservice

The Food Group

Healthcare

CommonHealth
www.commonhealth.com

Investor relations

International Presentations[1,4]

PR & sports marketing

PRISM Group[4]

Real estate

Pace

Retail

Walker Group/CNI
www.wgcni.com

Technology

Smith and Jones
www.smithandjones.co.uk

Media & technology services

The Clever Group
www.clever.co.uk

Savatar
www.savatar.com

The Farm[1]

New media investments

NewsEdge Corporation[2]
www.newsedge.com

Media Technology Equity Partners[3]

Media Technology Ventures[3]
www.mtventures.com

Peapod[2]
www.peapod.com

Syzygy[2]
www.syzygy.net

[1] Associate investment
[2] Minority investment
[3] Venture fund
[4] Not held at 31 December 1998

1998 financial summary

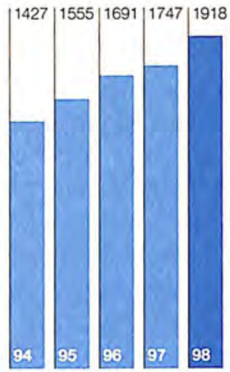
Our 1998 results reflect record profits in our thirteenth year, with continued improvement in revenues, margins and earnings per share. The gap between the very best performing competition and ourselves continues to narrow.

	1998	1997	Change %
Turnover (gross billing)	**£8,000m**	£7,287m	+9·8
Cost of sales	**£6,082m**	£5,540m	+9·8
Revenues	**£1,918m**	£1,747m	+9·8
Earnings before interest, tax, depreciation, and amortisation	**£279m**	£235m	+18·7
Operating profit	**£229m**	£195m	+17·4
Operating margin†	**12·8%**	11·8%	+1·0
Profit before tax	**£213m**	£177m	+20·3
Fully diluted earnings per share	**18·8p**	15·7p	+19·7
Fully diluted earnings per ADR††	**$3·12**	$2·57	+21·4
Ordinary dividend per share	**2·56p**	2·13p	+20·2
Ordinary dividend per ADR††	**42·4¢**	34·9¢	+21.5
Net cash at year-end	**£134m**	£195m	–31·3
Average net debt	**£143m**	£115m	+24·3
Share price at year-end	**365·8p**	269·5p	+35·7
Market capitalisation	**£2,804m**	£1,984m	+41·3

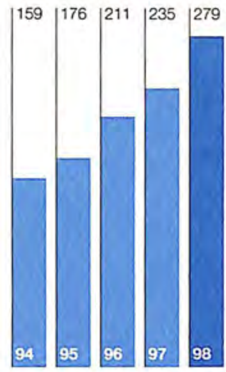
† Including income from associates

†† One American Depositary Receipt represents 10 ordinary shares. For convenience these sterling figures have been translated to US dollars at the average rate for the period.

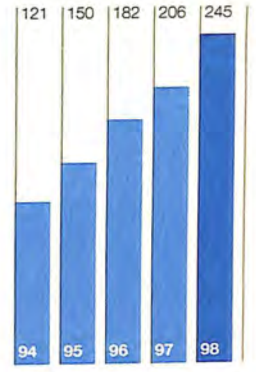
Revenue £m



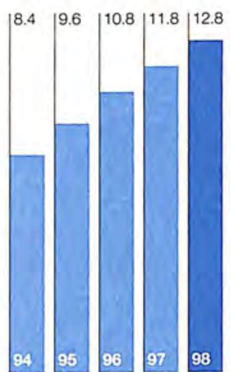
Earnings before interest, tax, depreciation and amortisation £m



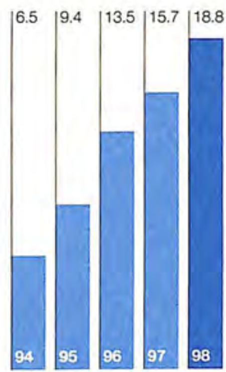
PBIT £m



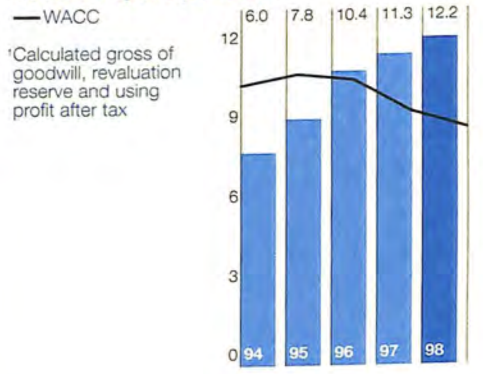
PBIT margins %



Fully diluted earnings per share p

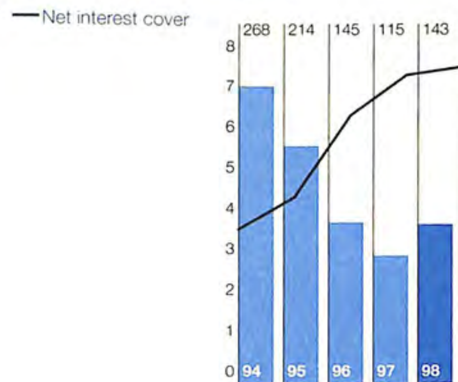


After tax return on average capital employed† % **and weighted average cost of capital (WACC)** %

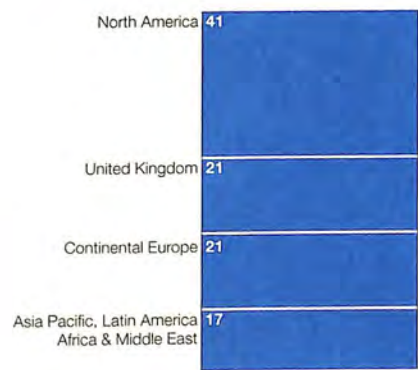


†Calculated gross of goodwill, revaluation reserve and using profit after tax

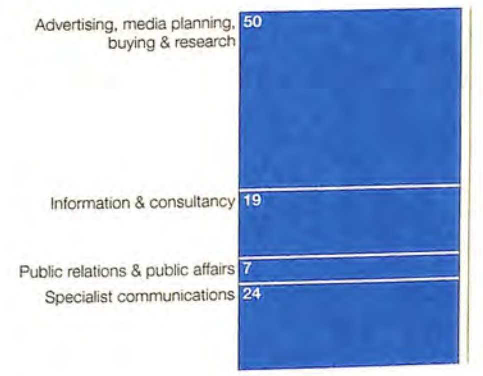
Average net debt £m
& interest cover multiples



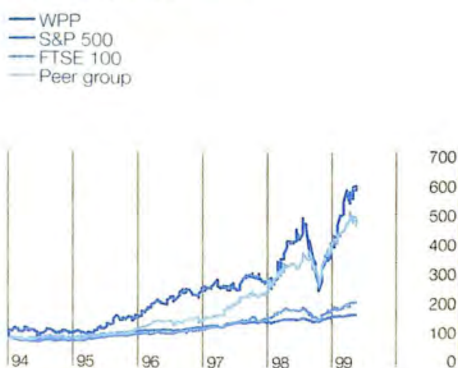
1998 revenue by geography %



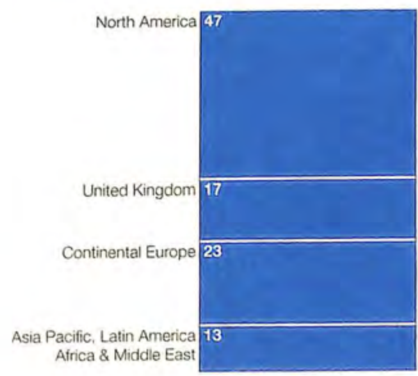
1998 revenue by sector %



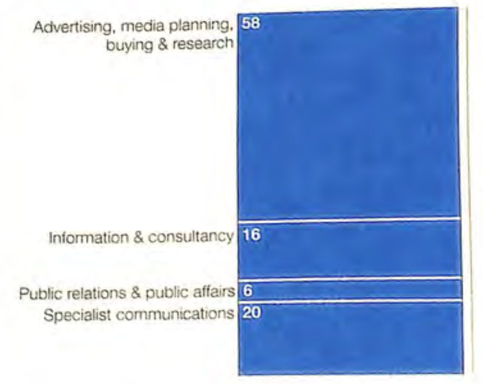
WPP total return to share owners relative to peer group
rebased to 1994



1998 PBIT by geography %



1998 PBIT by sector %



How do you measure imagination?

WPP's 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.

Until mission statements are checked against delivery, they are empty rhetoric.

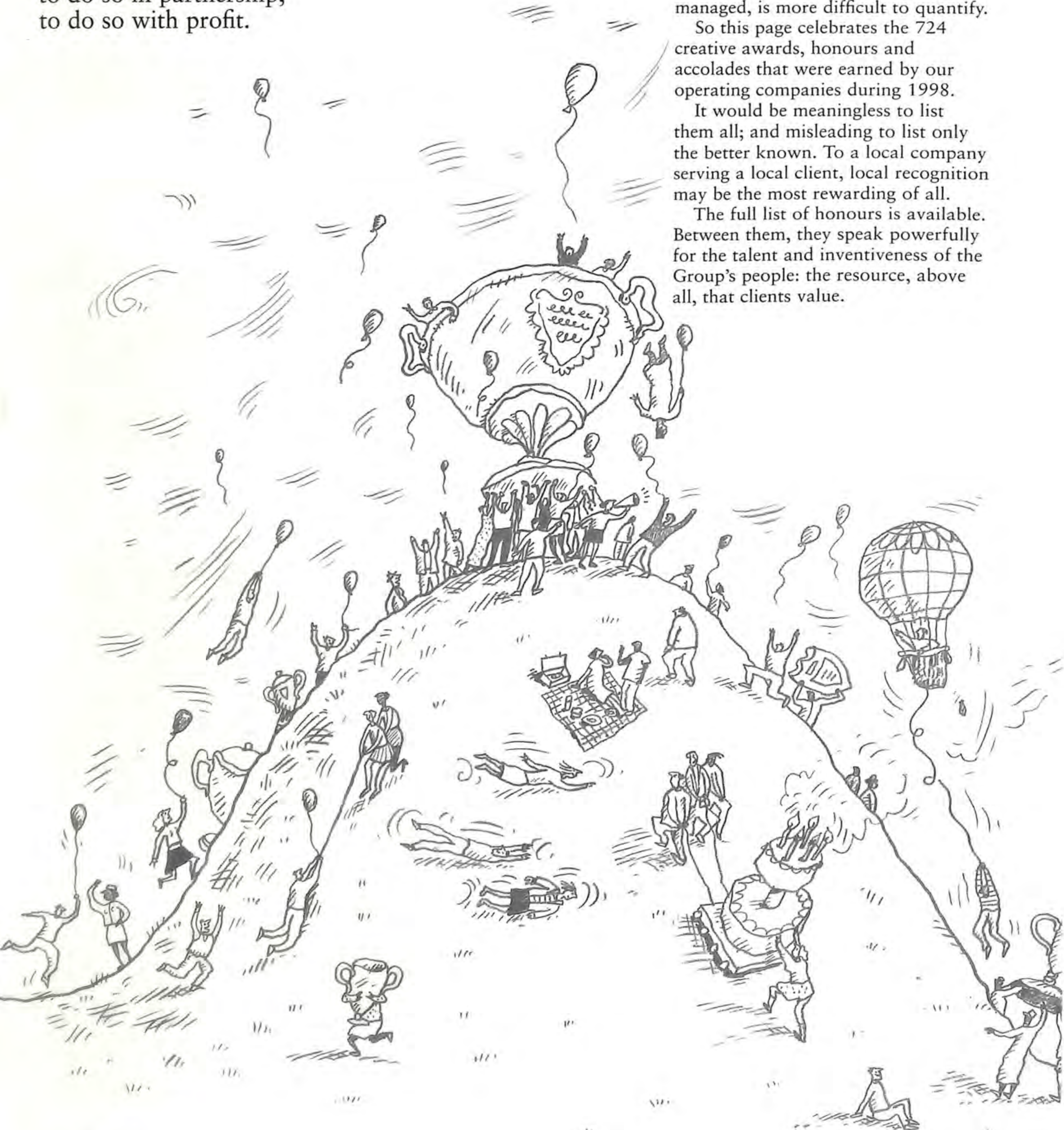
On other pages, this report records WPP's financial, organic and new business achievements. Against these criteria, our mission stands up well.

But evidence of talent, well managed, is more difficult to quantify.

So this page celebrates the 724 creative awards, honours and accolades that were earned by our operating companies during 1998.

It would be meaningless to list them all; and misleading to list only the better known. To a local company serving a local client, local recognition may be the most rewarding of all.

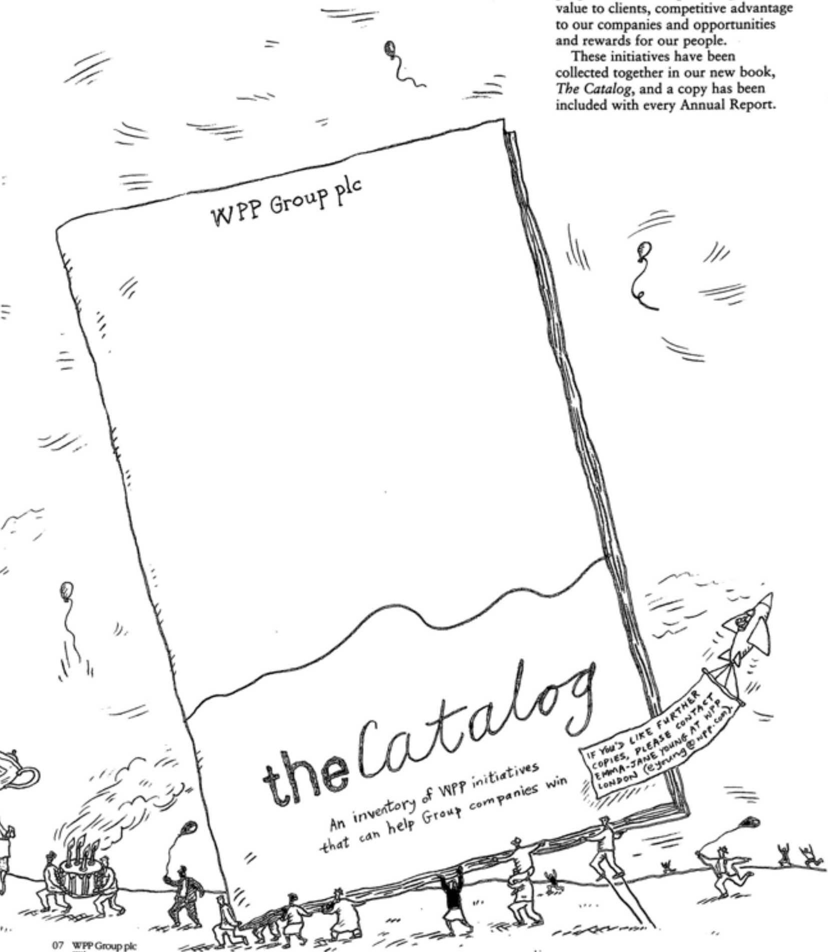
The full list of honours is available. Between them, they speak powerfully for the talent and inventiveness of the Group's people: the resource, above all, that clients value.



What are parents for?

At the parent company, we are increasingly complementing the professional activities of our individual operating companies through cross-Group initiatives and programmes which provide greater value to clients, competitive advantage to our companies and opportunities and rewards for our people.

These initiatives have been collected together in our new book, *The Catalog*, and a copy has been included with every Annual Report.

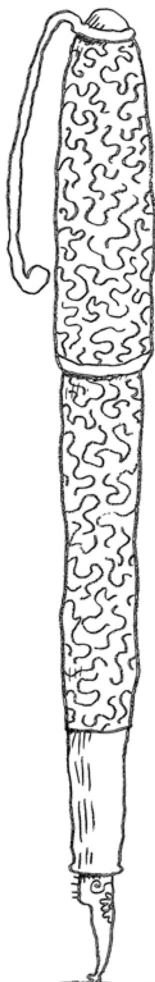


Dear Share Owner,

1998, our thirteenth year, was another record year despite the continued strength of sterling and the economic shocks in Asia, Russia and Latin America.

Turnover and revenues were both up 10% to £8 billion and £1.9 billion respectively. Pre-tax profits rose by 20% to £213 million, earnings per share by 20% to 18.8p and dividends by 20% to 2.56p.

The real measure of your wealth, the share price, rose by 36% during 1998, and since the year-end by a further 47% to 536.5p at the time of going to press.



This strong growth in the Company's share price resulted in admission to the FTSE 100 Index towards the end of 1998 after only 13 years, one of the fastest entrants. Your company is also a member of the Eurotop 300 index and the BusinessWeek Global 1000. If it was based in the United States it would also be a member of the Fortune 500, both by revenues and by market capitalisation.

The rest of this letter is based on constant currency comparisons, which are more meaningful given the continued strength of sterling in 1998.

Revenues were up by 13% and gross profit by 15%. All our disciplines – advertising; media planning, buying and research; information and consultancy; public relations and public affairs; and specialist communications – grew strongly but with greater growth outside advertising, so much so that non-advertising activities accounted for more than 50% of revenues for the first time.

The same strength was seen geographically with double-digit growth in North America, the United Kingdom and Continental Europe but slower growth due to economic problems in Asia Pacific, Latin America, Africa and the Middle East.

Operating margins were up by over 1 margin point for the sixth year in a row in line with our objectives. Productivity and efficiency again increased significantly as like-for-like revenues grew by almost four times the like-for-like increase of staff numbers of 2.5%.
As a result operating profits grew by more than 23% to £229 million. Pre-tax profits were up even more at 26%. We generated £132 million of free cash flow, up over 20% over last year and which was more than absorbed by acquisition payments and investments of £115 million, share buy-backs of £55 million and dividends of £17 million. As a result average net debt rose to £143 million, which is still below the target range we are comfortable with of £150-200 million. Finally, earnings per share rose by 26%.

1999 has started well and should see similar improvement. After three months, revenues are up 10% against a budget of more than 4%. Operating margins are on-budget which calls for an improvement of 0.6 margin points.

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

Our six objectives are as follows:

- First, to continue to raise operating margins to the level of the best performing competition, from almost 13% last year to almost 13.5% this year and to 14% in 2000. Is there life after 14%? Well, our competition is at 15-16% and we believe there are better ways of doing things which they have not explored. So there should be.
- Second, to increase the flexibility in our cost structure to cope with the recessions when they come. This flexibility should act as a 'shock absorber' to protect our margins when revenues are squeezed by an economic slowdown. Our investment in people and property now accounts for approximately 60% of revenues. Variable staff costs, including incentive compensation, freelancers and consultants, now account for almost 6% of revenues and we aim for 7-8%.
- Third, we have achieved our objective of de-leveraging the Company to average net debt of £100-150 million and interest cover of 6-7 times. Now we have to focus on how we can improve share owner value by maximising the return on alternative investments in capital expenditures, acquisitions and investments, dividends or share buy-backs.

Although capital expenditures have risen recently primarily reflecting Year 2000 issues and property rationalisation, they are unlikely to absorb more than 120-130% of the depreciation charge in the medium and long term.

We continue to trawl carefully for acquisition and investment opportunities and have added resources to our central acquisition team. However, we remain concerned about value in certain markets. We will therefore probably remain primarily active in acquiring strategically important, small to medium-sized businesses of up to $300 million in value.

Increasing dividends tends to raise the fixed charges in the business, and as a result we will continue to favour share buy-backs as a use of our free cash flow. In 1998 we invested £55 million here, and continue to be committed to a rolling annual buy-back programme of approximately £50 million equivalent to approximately 1-2% of our share capital. Historical data seems to indicate that programmes on this scale have the most significant impact on share owner returns.

- Fourth, to advance further the role of the Company from that of a financial holding or investment company (concentrating solely on financial matters such as planning, budgeting, reporting, control, treasury, tax, mergers, acquisitions and investor relations) to one that adds value to our clients and our people.

We clearly have some way still to go in achieving this objective, at least in terms of perception. Last year, we brought together a task force of some of our best and brightest (16 people from nine companies and seven countries) to examine our strategy and report to the WPP Board. There were two key conclusions. First, that the parent company was still perceived as being too 'financial'; and second, that the unique breadth and depth of our worldwide business offered tremendous career development opportunities for our people which our competitors could not replicate.

As a result of this appraisal, we confirmed our hunch that many of the professional initiatives taken by the parent company over the years had been inadequately publicised and under-promoted throughout the operating companies: a problem we had begun to address with the compilation of *The Catalog*.

In March 1999, this booklet was distributed to the 33,000 people of WPP. Subtitled 'an inventory of WPP initiatives that can help Group companies win' it brings together for the first time the 25 schemes and programmes designed (and mainly funded) by WPP, all of which can give our operating companies competitive advantage.

Though intended primarily for internal use, a lightweight copy of *The Catalog* has been included in this Annual Report – and will, we hope, give you, our share owners, a useful brief on the work we are doing at the centre to help improve the professional

capabilities of our companies.

It details our initiatives in the key adding-value areas that we have identified – human resources, property management, procurement, information technology and practice development. It explains the work done by the limited headcount of 100 or so parent company people in London and New York, with some support in Hong Kong and São Paulo.

It gives you details of our short-term and long-term incentive plans, and our high performer 100 and 300 Clubs; of our Worldwide Ownership Plan, Worldwide Partnership Program and Atticus Awards – our literary Oscars; of our training and knowledge sharing programmes and specialised seminars on creativity, retailing and interactive; of our Marketing Fellowship Program; of our Group directory, *Navigator* and newspaper *The WIRE*.

It also explains the WPP Space Program which seeks to improve the return on our annual investment of $300 million in our property, by improving communications, speed of response and efficiency, through new design and layout of our premises.

It covers the procurement initiatives we have taken in various regions of the world to improve the way we purchase goods and services and co-ordinate their buying.

It shows how we are increasingly co-ordinating our $75 million annual investment in hardware, software and information technology salaries.

Finally, it describes our 'horizontal' practice development initiatives in 10 recently identified high growth areas across our 'vertical' operating brands – in media planning, buying and research; in healthcare; in privatisation; in new technologies; in new geographic markets; in retailing; in internal communications; in entertainment and media; in financial services; and in telecommunications and hi-tech. It also covers our direct investments in new media and our start-ups and internal strategic alliances which reinforce our practice development initiatives.

All these initiatives are designed to ensure that we, the parent company, really do (and are perceived to) inspire, motivate, coach, encourage, support and incentivise our operating companies to achieve their strategic and operational goals.

■ Fifth, as we move up the margin curve we are placing greater emphasis on revenue growth. A legitimate criticism of our performance against the best performers in the industry is that our internal or organic growth rate is lower. Over the last four years we have grown organically by approximately 8% per annum, against approximately 10% for the very best of the best performing competition.

Our objective is to move up to this level by better positioning our revenue portfolio in faster-growing functional areas. Our practice development initiatives are aimed at helping with this and acquisitions so far in 1999 in the areas of hi-tech, direct marketing, interactive, healthcare, identity and design and sports marketing are also key. Information and consultancy, public relations and public affairs and specialist communications currently account for just over 50% of our revenues. We would like to see them at 55% in five years.

Similarly, our geographic expansion is aimed at improving our organic revenue growth rate. Despite recent difficulties we still believe that the key growth areas will be Asia Pacific, Latin America, Central and Eastern Europe, Africa and the Middle East. Currently these areas account for approximately 17% of our revenues, versus 13% a few years ago. We would like to see them at one-third within five years, similarly balanced with North America and Europe.

To achieve this we will expand our strong institutional networks in advertising, media planning, buying and research, information and consultancy, public relations and public affairs and specialist communications – Ogilvy and Mather Worldwide, J. Walter Thompson Company, Conquest, Batey, MindShare, Research International, Millward Brown, Hill and Knowlton, Ogilvy Public Relations Worldwide, OgilvyOne, CommonHealth and Enterprise IG – in high growth markets or where their market share is insufficient. In 1998 we tackled Australia, Japan and France. In 1999 there is more work to do in France and Germany, for example.

We will also enhance our leadership position in information and consultancy by continuing to develop our key brands with particular emphasis on North America, Latin

America and Asia Pacific. We will also reinforce our growing position in media research through Kantar Media Research. This includes our investments in television audience research through IBOPE and AGB Italia, which now have strong representation in 25 countries in Europe, Latin America and Asia Pacific.

In addition, we will reinforce our worldwide strength in direct and interactive marketing and research through our traditional channels such as OgilvyOne Worldwide and Millward Brown Interactive. We will also invest directly in the new channels that so excite the financial markets currently.

Lastly, we will continue to develop our specialist expertise in areas such as healthcare, retail and interactive and to identify new high growth areas.

■ Sixth, and you will be pleased to know our final objective, is to improve still further the quality of our creative output. Of the three things we do, strategic thinking, creative execution and co-ordination, creative execution is probably the most important – but we use the phrase in its broadest sense. Clients look for creative thinking and output not just from advertising agencies, public relations and design companies, but also from our media planning, buying and research company MindShare and our research companies. Millward Brown is already arguably one of our most creative brands.

We will do this by stepping up our training and development programmes; by recruiting the finest talent from outside; by celebrating and rewarding, both tangibly and intangibly, outstanding creative success; by acquiring strong creative companies; and by encouraging, monitoring and merchandising our companies' achievements in winning creative awards (see page 6).

A colossal amount remains to be done – and given the pace of change that our clients face and therefore challenge us with, it seems certain that once these objectives are achieved, they will be replaced by new ones.

As companies grow in size, most chairmen and CEOs become concerned that their organisations may become flabby, slow to respond, bureaucratic and sclerotic. Any sensible chairman or CEO would not want this to be the case. They would want both the benefits of size and scale with the responsiveness and energy of a smaller firm. For the first time new technologies enable this to be achieved more effectively and easily. WPP is no different. We want the scale and resources of the largest firm together with the heart and mind of a small one.

As a parent company, we are developing practical principles and policies for employee relations, charitable giving, the environment and support for communities and the arts, based on best practice guidelines. Our activities run in parallel with our operating companies' initiatives and programmes in each of these areas. A summary of the Group's initiatives to date can be found on pages 85 and 91.

A report such as this, not least for legal reasons, will be dominated by numbers. For 1998, and so far for 1999, the numbers are good. But it is the world beyond the numbers, a world that doesn't easily lend itself to precise measurement, that should give share owners even greater satisfaction. Because what those numbers simplistically represent is the successful application of the imagination to tens of thousands of client projects around the world: country by country, company by company, discipline by discipline.

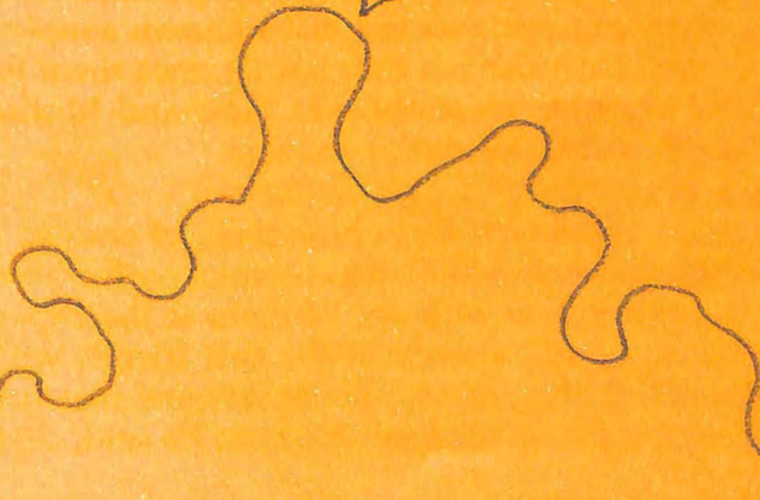
The work, of course, is all hand-made: each item made-to-measure; each artefact, of necessity, different from every other.

And the hands that make this work are those of the 33,000 talented people who work in WPP companies – so it is right that we should end this letter by recognising their skills, honouring their contribution and thanking them for their dedication and commitment. We hope that they derived some fun – as well as more tangible reward – from the excellent year on which we report.

Hamish Maxwell
Chairman

Martin Sorrell
Group chief executive

Why we exist



Time-and-Motion Man and The Mad Inventor
Dream Team for the Next Millennium

All evidence suggests that successful companies become and remain successful by adopting two apparently contradictory policies. They then insist that these two policies cohabit in conditions of mutual respect and are meticulous in consistently never favouring one at the expense of the other.

They have no commonly accepted names, but one of the best and earliest descriptions of them comes from E F Schumacher's 1973 classic, *Small Is Beautiful*. In a passage about corporate organisation (quoted approvingly in 1997 by Niall FitzGerald, Chairman of Unilever) Schumacher writes:

"Without order, planning, predictability, central control, accountancy, instructions to the underlings, obedience, discipline – without these nothing fruitful can happen, because everything disintegrates. And yet – without the magnanimity of disorder, the happy abandon, the *entrepreneurship* venturing into the unknown and incalculable, without the risk and the gamble, the creative imagination rushing in where bureaucratic angels fear to tread – without this, life is a mockery and a disgrace."

Here, wonderfully well evoked, are the two nameless and apparently contradictory policies. In honour of Schumacher, they might be known simply as Order and Disorder but that hardly does them justice. I like to think of them as Time-and-Motion Man and The Mad Inventor.

We know them both well, of course. But because the human mind finds paradox uncomfortable, we feel we need to side with one of them at the expense of the other: we cannot, we believe, be best friends with both. And we find it quite impossible to imagine that they could ever be partners – as indeed, it has to be said, do they. It is Time-

and-Motion's conviction that Mad Inventors have no place whatsoever in well-ordered corporate affairs; and every Mad Inventor knows that Time-and-Motion means the death of creativity and enterprise.

It was Schumacher's great contribution to point out that much of good management consists in the reconciling and balancing of conflicting demands – while still retaining the ability to function; in much the same way, he said, as the successful management of societies consists in reconciling and balancing the conflicting demands of individual liberty and social cohesiveness. In theory, it seems impossible. In practice, we manage it every day.

The importance of Time-and-Motion Man to competitive business hardly needs rehearsing: and recessions and rumours of recessions remind us of it all the time. To achieve and maintain a low-cost base; to buy efficiently; to concentrate your points of manufacture; to manage money; to look always for less labour-intensive ways of doing things: to become leaner and meaner. No manager can doubt that, to have even a chance of sustained success, today's competitive companies must be constant in their employment of the Time-and-Motion Man: "Planning, central control, accountancy, discipline – without these, everything disintegrates." Without these, you're dead.

And so the legitimate demands of Time-and-Motion Man have influenced company structures, company cultures – and company policies on recruitment and reward. Efficiency is honoured, waste is deplored; and quite right, too.

The mistake, of course, without budging for a moment from one's total commitment to Time-and Motion Man, is to believe that he is the only employee we need. And there are good reasons to believe that, in 1999, this could be a bigger mistake than at any time in commercial history.

Commentators are surprisingly agreed. Business – and businesses – are changing fast. There is a new alchemy around. Two 20-year olds in a garage, without access to capital or raw materials or plant, can found a company that within 25 years will become the world's biggest.

Where once there was an industrial age, and then an information age, we're now well into the age of the imagination: an age where the price and availability of

knowledge and technology may favour the small over the large; the innocent over the experienced; the bold over the cautious; the inventive (and frequently wrong) over percentage-playing consolidators. An age where something called intellectual capital can make a nonsense of conventional balance sheets.

The nature of risk has changed, too. Because new thoughts can be test-flown so quickly, it may be a great deal more risky to do nothing than to do something. Too many management careers are still driven by the need to circumnavigate failure. In Silicon Valley, early failure is seen as evidence of enterprise and a necessary qualification for future support.

What all these changes are doing is to put an even greater premium on the value of ideas: product ideas, process ideas, distribution ideas, positioning ideas, brand extension ideas, communications ideas. So increasingly, companies must look to their cultures and structures; because the structures and cultures that were installed at the insistence of Time-and-Motion Man are often hostile to challenge and unorthodoxy; to the free-thinking generation of new hypotheses; to the kind of habitat in which The Mad Inventor will flourish most productively.

The Mad Inventor invents indiscriminately; and will promote his bad ideas as relentlessly as his good ones. He has only to hear of an accepted practice to know that it needs to be overthrown. He is vain, unreliable, and whimsical in his judgments. He despises timesheets. But The Mad Inventor – at least some of the time – is challenging the conventional, teasing out hypotheses, forging new connections, making new analogies – and haphazardly scattering seeds; some of which, in a few years' time, will become the harvest on which the whole of his organisation lives.

The happier he is in his habitat, the more fertile he will be. He does not respond gracefully to insistent micro-management by Time-And-Motion Man. If he feels the constraints of the corporate straitjacket, he will not succumb meekly and catch his usual 6.14 home. He will leave; even if he has nowhere else to go.

In his 1996 book *The Hungry Spirit*, Charles Handy echoes Schumacher: "Creativity needs a bit of untidiness. Make everything too neat and tidy and there is no room for experiment. Keep a tight rein on costs and there is no cash available to try new things or new ways. Cram your

days too full and it's hard to find time to think. We all need a bit of slack to give us the space to experiment."

All good marketing case-histories celebrate the contribution of a great idea. But you can read a thousand and still be left wondering how great ideas happen. You will read about the market analysis that was done, the conclusions that were drawn, the strategy that was adopted. And then it says something like: "And so the Giant Platypus was born." Two thousand words later we will have learned how the Giant Platypus has increased brand share by 10 percentage points and profits by several million – but the one thing we will not have learned is how the Giant Platypus came into being in the first place.

The idea may be a product idea, a positioning idea, a communications idea. You may be certain of only one thing: the precise circumstance of its emergence will remain forever unknown and unchronicled. And so it is always bound to be.

It is no good instructing Time-and-Motion Man to install procedures designed to optimise idea production on schedule and within budget. As Schumacher, Handy, and the chief executives of marketing communications companies know only too well, that is not the way that ideas happen. Increasing the quantity and quality of ideas is partly about recruiting a Mad Inventor or two – and at least as much about creating an environment in which Mad Inventors are honoured.

Commercial communications companies – advertising, design, public relations – are unusual. Their only raw material is information and their only manufacturing facility is the human brain. Data is delivered to the back door; is subjected to analysis, experience and interpretation; and is then transformed, after intense exposure to the imagination, into An Idea. These are companies who for all their lives have recognised the claims of both Time-and-Motion Man and the Mad Inventor; and have enjoyed some modest success in learning how to manage them.

The trick, of course, is to know when in the creative process to give precedence to each. There are times for rigour and there are times to fly.

And it is this experience, surely, that could be of far greater value to client companies in the future. If a

conscious application of the imagination is to be extended into the corporate whole, if company strategy is to be as creative as corporate communications strive to be, then it would seem to make sense to adopt similar planning procedures.

The first stage is the selection and analysis of all relevant information: What is our current situation? How do we seem to our customers? How do we stand competitively? Do we see trends – and if so, in which direction? No room for whimsy, here. No room for guesswork or flair or approximations: just hard, rigorous, clinical interrogation. For outside advisers, the client company may well look to the management consultant. Time-and-Motion Man is in his element.

Then: What is possible for the future? What is our most desirable (practical) destination? Subtly, the rules of engagement change – because there's now a need for speculation. The Mad Inventor, until now on the benches, is called on to the field.

If invited to speculate, Time-and-Motion man becomes unhappy. He is interested in a destination only if he can see immediately how to get there. By contrast, the Mad Inventor finds speculation irresistible – and can become irrationally committed to a destination whether or not there is discernible access to it. Between them, skilfully managed, an hypothesis is formed. Given the technology, given our knowledge and our foresight: this is where we could be.

And then finally: How do we get there? What actions, deeds, changes, inventions, investments do we need to make that will make our arrival at that destination most probable?

This, with a small roll of drums, is The Mad Inventor's big moment. Because it is now that we need "the magnanimity of disorder, the happy abandon, the *entrepreneurship* venturing into the unknown and the incalculable..." It is at this moment (for the moment) that Time-and-Motion Man should be gagged and bound and left in the locker room. And where the advertising agency, the design consultant or the public relations counsel could be involved and motivated and encouraged to think irresponsible thoughts; to supplement internal corporate resource; to augment "the creative imagination rushing in where bureaucratic angels fear to tread."

Ideas do not have to be good ideas to be useful. Thinking impossible thoughts has a value. The deliberate suspension of censorious judgment may be the only way to liberate minds from the deeply-rutted convictions of earlier times. The imagination flies free.

And then, of course, comes the final stage. The flying is over and rigour returns. Time-and-Motion Man is released from his bonds. Assessment begins.

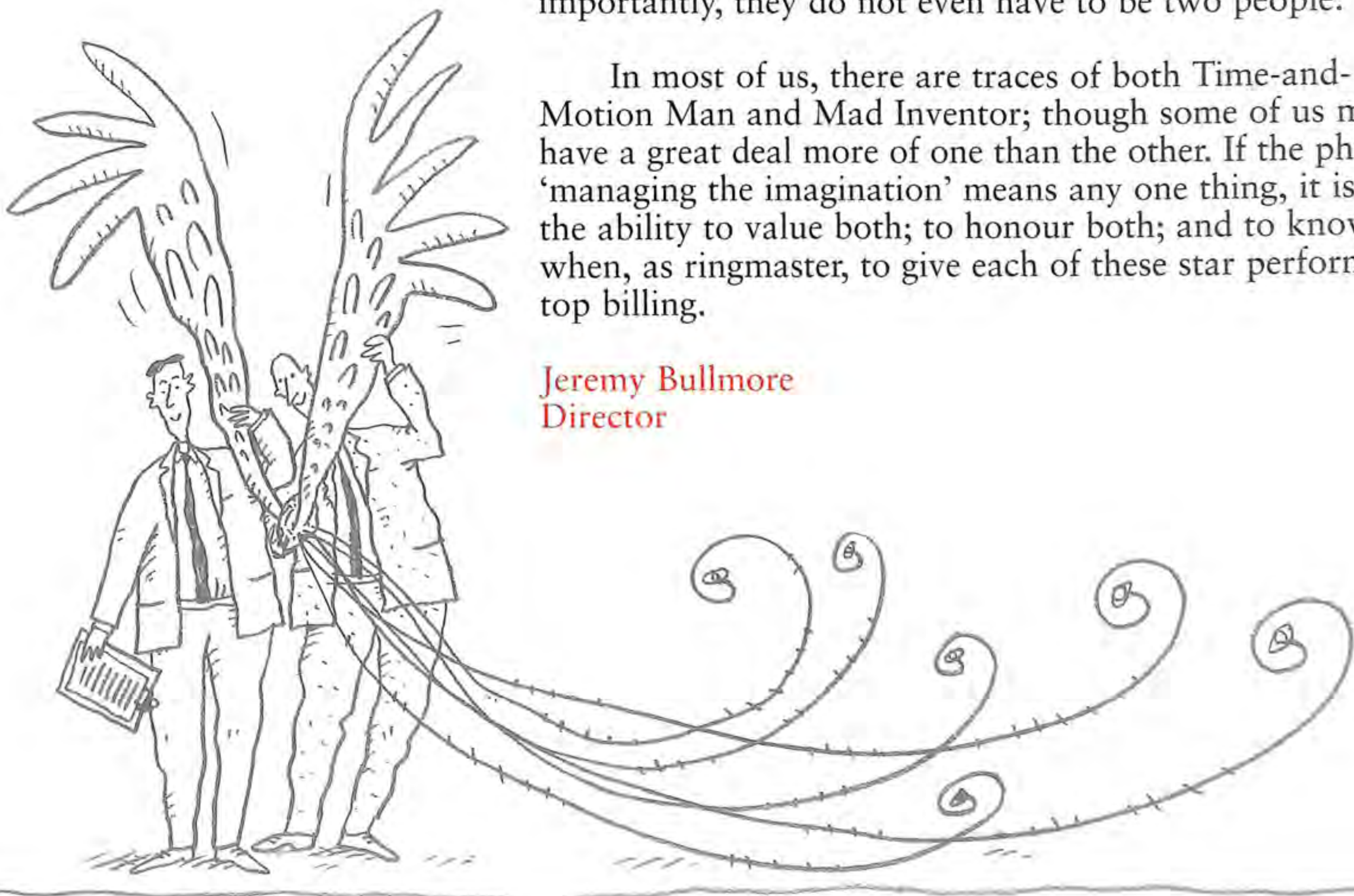
But the scope of the opportunities and the richness of the landscape ahead will far exceed anything that a more responsible, methodical, deductive approach might have generated. And more efficiently, too; and a great deal more enjoyably.

As business learns to compete in the new creative age, the efficient exploitation of the imagination will be as critical to success as the exploitation of coal once was. And it would be good to think that some of the management skills and tricks that its communications advisers have painfully accumulated over the years could be brought more usefully and centrally to bear.

There are two final points to be made about Time-and-Motion Man and The Mad Inventor. They do not, of course, have to be men. And even more importantly, they do not even have to be two people.

In most of us, there are traces of both Time-and-Motion Man and Mad Inventor; though some of us may have a great deal more of one than the other. If the phrase 'managing the imagination' means any one thing, it is the ability to value both; to honour both; and to know when, as ringmaster, to give each of these star performers top billing.

Jeremy Bullmore
Director



What we think

what
we
think

The Real Millennium Bugs

Martin Sorrell looks into the future of the communications services industry

As a communications services group, our growth, our structure, the way we and our Group companies operate – everything about us – is inextricably linked to the needs of our clients (at least, it should be, if we're doing our jobs properly).

This is why, in offering an overview of our industry, I devote a lot of time to discussing the issues facing our clients – because they will all eventually, indirectly impact on our Group companies. I have highlighted three factors in particular, where I believe that our clients' response to changing conditions will quickly and directly alter their requirements of their communications agencies: overcapacity, the new channels of distribution and internal communications.

One of the most noticeable ways in which our clients' needs are changing is their increased demand for non-media communications – the services that ad agencies occasionally (and slightly disparagingly) refer to as 'below-the-line'. As the only major communications services group with its origins in non-media communications, WPP is uniquely prepared to respond to this shift.

The outlook for communications services

Background

In 1998 worldwide expenditure on communications services grew about 6% to more than $950 billion. The industry ranks amongst the top 10 in the United States, the world's largest industrial nation, which is becoming more and more dominant, and is amongst the fastest growing.

The US market continued to strengthen and surprisingly absorbed the shocks from Asia Pacific, Russia and Latin America. Europe also grew strongly – France, Germany, Italy and Spain in particular. However, balanced growth will be difficult given the strictures of the European common currency and the historically high levels of unemployment. Centrists and left of centre governments will find it difficult not to over-stimulate their economies.

The United Kingdom economy was like the curate's egg. The good parts were the high growth sectors like information technology, telecommunications, healthcare and the high and low ends of retailing. The manufacturing economy was not in such good shape. Perhaps productivity levels are not so internationally competitive. The strength of sterling does not help either.

Asia Pacific and Latin America were the soft spots. Asia Pacific showed some signs of bottoming out. After all it is two years since the Thai tax inspectors came looking for voluntary tax payments from multinational companies to fund government expenditure. Korea, Taiwan, Thailand, China, Singapore, The Philippines, India and Australia all did well given the circumstances. Japan remained problematic.

Recovery remains fragile although there are signs of stability returning. Indonesia and Malaysia remained very difficult and will probably take more time to recover. Overall there has been considerable cost-cutting in the region, and when the recovery comes it will be strong, buoyed by currency devaluations.

Latin America remained the most difficult area. Brazil, still the lead economy, is volatile and unpredictable. The government's Canute-like resistance to devaluation was

Worldwide communications services expenditure 1998

	Advertising	Market research	Public relations & public affairs	Specialist communications	$bn Total
USA	191.6	4.7	18.2	300.4	514.9
UK	20.6	2.0	3.3	48.5	74.4
France	11.9	0.9	0.7	16.7	30.2
Germany	19.1	1.1	0.9	23.6	44.7
Japan	27.5	0.6	2.6	30.9	61.6
Rest of the world	127.3	2.1	2.4	110.1	241.9
Total	398.0	11.4	28.1	530.2	967.7

Source: WPP estimates from various trade sources

Top 12 US industries ranked by five-year growth

	1992-1997		1997-2002	
US industry	**Growth %***	**Rank**	**Growth %***	**Rank**
Telecommunications services	9.4	1	11.1	1
Electronic equipment and components	8.4	2	5.9	3
Educational services	7.8	3	5.9	5
Communications	7.2	4	7.7	2
Motor vehicles and parts	7.0	5	3.5	10
Insurance	6.9	6	4.0	9
Health and medical services	6.3	7	5.1	8
Travel services	5.9	8	7.0	4
Aerospace	5.2	9	5.8	6
Construction	3.9	10	5.7	7
Food and related products	3.0	11	3.0	11
Apparel and related goods	1.8	12	2.5	12
Top 12 total	6.1		5.6	
Nominal GDP	5.3		5.3	

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

Top 12 US industries by final dollar sales

	1992		1997		2002	
US industry	**$bn**	**Rank**	**$bn**	**Rank**	**$bn**	**Rank**
Health and medical services	890	1	1,210	1	1,550	1
Insurance	537	2	748	2	910	2
Construction	460	3	557	4	735	4
Food and related products	452	4	525	5	610	7
Educational services	385	5	560	3	745	3
Travel services	371	6	495	6	694	5
Communications	298	7	423	7	614	6
Motor vehicles and parts	255	8	357	8	425	9
Aerospace	225	9	290	9	385	11
Electronic equipment and components	190	10	285	10	410	10
Telecommunications services	177	11	278	11	470	8
Apparel and related goods	157	12	172	12	195	12
Top 12 total	4,397		5,900		7,743	
Percent of GDP (%)	70.4		73.00		73.9	

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

overcome, but the issue remains whether the government is prepared to implement politically unpopular policies that will create more unemployment in trying to reduce massive over-capacity. Failure to deal with Brazilian issues may lead to a knock-on effect in the rest of South America and then to the US itself. After all US multinationals have their heaviest overseas exposure to Latin America.

Africa and the Middle East continue to become more interesting but political issues in South Africa and Israel inhibit progress.

And how did WPP do? We did very well in the US, Europe and Asia Pacific increasing market share significantly. Like others, however, we suffered in Latin America, probably holding or slightly increasing market share but in very difficult circumstances.

The non-media parts of the industry – in our case, information and consultancy (market research), public relations and public affairs and specialist communications – continued to grow faster than advertising. As a result, in our case, these non-advertising activities accounted for more than 50% of our revenue.

This year

1999 should see a similar pattern in the industry worldwide but with growth around 5%. The US should continue to grow well, with Europe the same but perhaps more patchy. The UK will be more difficult as will France and Germany but overall there will be reasonable growth.

Asia Pacific will continue to recover with Japan bottoming out. China remains an enigma with the renminbi having effectively devalued already. Overall the position will be better, however, than in Latin America where the Brazilian problems will continue to affect the region.

Towards the end of 1999 the positive quadrennial influences of the 2000 US Presidential elections and the Sydney Olympic games should start to influence spending as well as euphoria surrounding the new millennium.

Chairmen and CEOs will want to use it as an excuse to reposition their companies. Presidential nominee, Al Gore, will not want to go to the country in an unfavourable economic climate and the election and Olympics have inflationary effects on media pricing. The one potential negative effect is the Y2K problem. Although, not directly affecting communications services spending, there are signs of postponement of information technology spending in the second quarter of 1999 which may come back with a rush towards the end of the year as the deadline approaches.

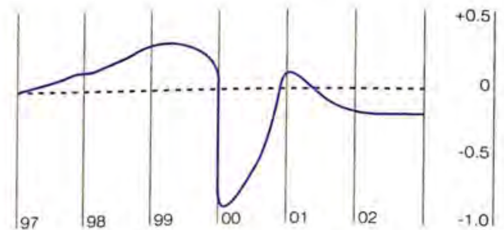
Next year

2000, buoyed by these influences, should be better than 1999 with overall spending up to 6-7%, perhaps reflecting recoveries in Asia Pacific and Latin America. Perhaps 2001 will be a more difficult year as we wrestle with a millennium party hangover.

Stylised estimate of effects on GDP of Y2K
% of GDP

— Deviation
--- Trend

Source: Goldman Sachs

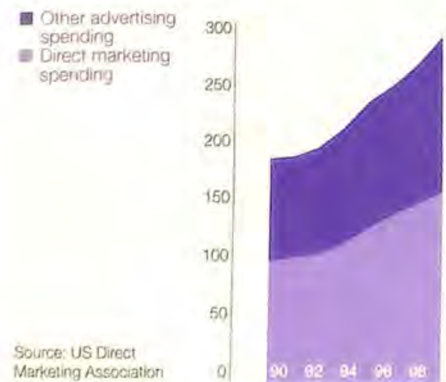


Latin America's financial performance

	GDP, % change on previous year			Consumer prices % increase on previous year*		Current-account balance as % of GDP		
	1997†	1998†	1999‡	1998‡	1999‡	1997†	1998‡	1999‡
Argentina	8.6	4.8	1.8	1.2	0.6	-2.9	-3.8	-3.5
Brazil	3.2	nil	-3.0	2.3	8.0	-4.2	-4.3	-2.2
Chile	7.1	4.8	1.0	5.0	5.0	-5.3	-7.5	-6.2
Colombia	3.1	1.5	1.5	19.4	19.0	-5.7	-7.7	-5.0
Ecuador	3.4	-1.0	1.5	40.0	23.0	-3.9	-10.0	-4.6
Mexico	7.0	4.3	2.3	16.6	13.3	-1.9	-3.6	-2.3
Peru	7.4	2.2	4.5	8.0	8.5	-5.2	-6.2	-5.8
Venezuela	5.1	0.5	0.5	38.0	28.0	6.9	-1.6	1.8
Overall	5.5	2.3	nil	8.8	9.4	-3.1 -$58bn	-4.3 -$81bn	-2.7 -$50bn

Source: J.P. Morgan
*December on December †Estimate ‡Forecast

US advertising spending
$bn



Source: US Direct Marketing Association

Growth of advertising spending %

Year	Television	Radio	News-papers	Con-sumer maga-zines	Busi-ness maga-zines	Online	Yellow pages	Out-door	Total
1993	4.4	9.3	4.4	5.1	2.2	–	2.1	6.0	4.6
1994	12.0	11.3	7.4	7.6	9.0	–	3.2	8.0	8.9
1995	7.1	7.7	5.9	8.4	7.1	–	4.2	8.2	6.6
1996	11.5	8.2	5.7	5.0	10.3	300.0	6.0	7.3	8.2
1997	4.8	10.0	8.6	9.0	11.6	353.0	5.3	8.8	7.9
1998	8.8	9.5	7.9	7.9	10.5	87.6	6.2	7.7	8.9
1999	6.7	9.0	7.2	7.1	9.0	82.4	5.5	8.7	8.0
2000	10.9	13.0	8.9	10.7	10.0	35.5	5.1	8.8	10.4
2001	5.0	8.2	6.2	6.6	8.0	28.6	4.5	8.8	6.6
2002	8.8	6.9	6.6	7.8	8.5	20.4	5.0	8.1	7.8
Compound annual growth									
1992-1997	7.9	9.3	6.4	7.0	8.0	–	4.2	7.6	7.2
1997-2002	8.0	9.3	7.3	8.0	9.2	48.3	5.2	8.4	8.3

Sources: Veronis, Suhler & Associates, Wilkofsky Gruen Associates, McCann-Erickson, Paul Kagan Associates, Business Information Network, Competitive Media Reporting, AdScope, Agricom, PERQ, American Business Press and Outdoor Advertising Association of America

Long-term growth trends in marketing services

Growth in non-media communications

Two significant trends have contributed to the growth of the industry.

First, non-media communications services such as information and consultancy, public relations and public affairs and specialist communications have grown faster than media advertising. Why? Well clients have become increasingly disenchanted with the increasing relative cost of network television advertising particularly in a low inflation environment. In addition, either in an attempt to build revenues and market share or to reduce costs, they have begun to try and co-ordinate or integrate communications services programmes. On the supply side mass media alternatives such as cable, newspapers, magazines, radio and posters have become more sophisticated and measurable. Finally, one-to-one targeted direct forms of communications have also become more sophisticated particularly with the development of electronic media.

Traditional network television remains the best way of reaching the largest number of people in the shortest period of time but it will become relatively less powerful.

WPP remains unique amongst the largest communications services companies in that its roots are in the non-media or below-the-line activities. Others have until recently focused almost entirely on media advertising often dismissive of the attraction and economic viability of these other activities.

Geographical trends

All kinds of communications services expenditure have grown faster outside the US than within. This has been a persistent trend – until the last year or so with the economic problems in Asia Pacific and Latin America. (Last year these regions declined in importance for WPP from 20% of revenues to 17% as a result of recession and devaluation.)

This growth outside the US is often explained by use of the term globalisation; but what we are witnessing may perhaps be more accurately described as the Americanisation of the world, rather than globalisation. Not in a cultural sense, as when the French became upset by the use of Americanisms such as *le hamburger* and *le Coca-Cola* in their language and tried to ban them. It is more a reflection of the increasing power and dominance of the American economy, particularly in the vacuum created by the fall of communism and extreme socialism in recent years.

The same phenomenon can be seen politically where the US has become policeman to the world in a similar political vacuum. In the commercial world this does not go against modern management preferences for empowerment and devolution of power from the centre. More it reflects a desire by global and multinational clients to develop economies of learning or co-ordination, not to re-invent the wheel in various parts of the world but to benefit from knowledge developed and shared.

In our own industry it is possible to argue that not only does approximately 40% of communications services expenditure originate in the US but that almost two-thirds is influenced from there, and most of it in the north-east corridor of New York, Chicago and Detroit.

This Americanisation of the world is reflected in many industries. For example, the investment banking market is becoming increasingly dominated by the leading American franchises – Merrill Lynch, Morgan Stanley, Goldman Sachs and JP Morgan. In the fourth quarter of 1998, Morgan Stanley and Goldman Sachs alone accounted for 58% of all merger and acquisition activity. Perhaps Joel Klein should investigate this monopoly! The European-based investment banking franchises are becoming increasingly eclipsed by their American counterparts. Who would have thought that the Warburg or Morgan Grenfell brands would have been virtually eliminated in such a short period of time? If you are going to dominate any product or service category you have to establish or buy a big franchise in the US. In investment banking, it will be interesting to see how European franchises cope competitively.

This trend has also been exacerbated in recent months by the capital markets. The consistently higher valuations awarded by American stock markets has resulted in a lower equity cost of capital for US-listed businesses. As a result it has been easier for American-based companies to use their equity to make acquisitions.

There are those UK-based institutions who believe that this is a temporary phenomenon that will be arbitraged out. There are others who believe that by the time it is, most of British industry will be American owned. Although there are examples of traffic the other way, such as BP with Amoco and Arco, Vodaphone with AirTouch and Vivendi with US Filter, US pooling accounting and buy-back activity reinforce the advantage (although this will not be the case after 1 January 2000). Some believe there is already starting to be a backlash against this increasing US dominance.

Whatever happens it is increasingly likely that the Asia Pacific, Latin American, Central and Eastern European and African and Middle Eastern markets will resume their increase in market share in due course. WPP remains committed to increasing the share of its business represented by these areas from 17% to a third, with a similar proportion in North American and in Europe. Markets such as Myanmar with 45 million people, Cuba with 11 million and Central America with 33 million will all flourish when political events permit, just as has happened in Vietnam, South Africa and the Middle East. After all by the year 2025 almost 65% of the world's population will live in Asia Pacific.

Issues facing our clients

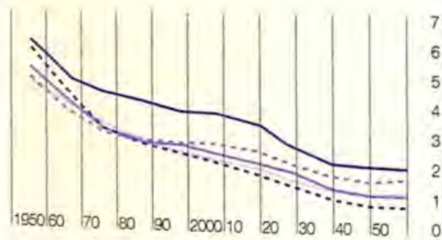
The impact of low population growth

Chairmen and CEOs of most companies commit to growing their companies by at least 10% per annum in terms of revenues, or profits or earnings per share. Given relatively low rates of population growth, this is only possible by expanding geographically or by taking market share from competitors. It may also explain why there is now greater willingness to shrink companies and their capital bases as growth has become more difficult. Concentration on share owners return and return on capital are probably less expansionary approaches.

Low population growth
Ratio of workers to retired people

— United States
--- Britain
— France
--- Germany
Italy

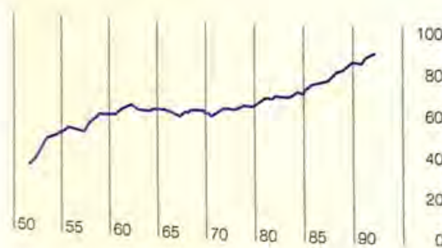
Sources: OECD, The Economist



Improved communications and free trade
Industrial countries' degree of capital-account openness

100 = Most open
0 = Least open

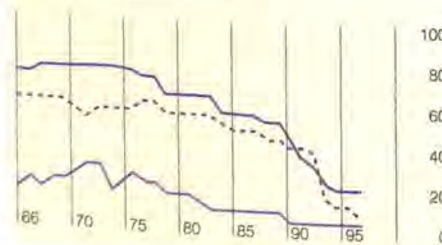
Sources: IMFU, Quinn and Inclan



Industrial countries' restrictions or capital flows % with

— Controls on capital-account transactions
--- Surrender of export proceeds
— Multiple exchange rates

Sources: IMFU, Quinn and Inclan



Improved communications and free trade

Easier travel, improved communications and the new technologies have made global expansion far easier. However, the single most important factor in territorial expansion has been the growth of free trade areas. Not only in Europe, but in Asia and Latin America too. It will be very damaging if there is a protectionist backlash partly in response to the Americanisation of the world and the dominance of the US economy. The major economic risk of full implementation of the EEC is a weakening of the Atlantic alliance.

Stable growth and low inflation

Both these factors and constructive government policies, which are increasingly co-ordinated at times of crisis, have resulted in relatively low levels of inflation, low interest rates and stable levels of growth. Witness the unprecedented length of this strong economic cycle and bull markets. However, such economic conditions cruelly expose inefficiency and weak pricing strategies. Gone are the days when manufacturers could pass on inflationary price increases. (Sadly, a dose of inflation makes life a lot easier.)

Technology transfer

It is also increasingly difficult to maintain a technological or real product difference. Even in what seem technologically sophisticated industries like telecommunications or information technology or automobiles, long-term product differentiation is very difficult and these markets are increasingly taking on the characteristics of packaged-goods industries. Intangible, life-style and service differentiation is becoming more and more important.

And that is where we come in. The communications services industry is about developing, defining and communicating tangible, and increasingly important intangible, differentiation. As a result product life-cycles are shortening and brand-cycles are lengthening. For example, even in the automobile industry product introduction times have been shortened to two to three years as opposed to over five years previously.

Growing retail power

With product differentiation becoming increasingly difficult and service becoming increasingly important as a differentiator, control of distribution is becoming more important. In the UK four food retailers currently control over half the market – a situation that will continue even in light of the government enquiry on profitability and probable foreign acquisition by global retailers such as Wal-mart.

Retailers have reinforced this control by development of own label or store brands. In recent economic cycles, own label or store brands have become much higher quality and have been developed at different price points. Manufacturers have responded by reducing price differentials violently, as we have seen in the tobacco, cereal, food and even newspaper markets.

So, control of distribution will become more important and the new technologies will enable manufacturers to reach the consumer more effectively on a one-to-one basis. Hence, we see Ford Motor Company in the automobile industry purchasing dealerships on both sides of the Atlantic. It is difficult to see why a food manufacturer, such as Unilever or Nestlé, should not pursue a similar approach and own retail stores – at least as an experiment?

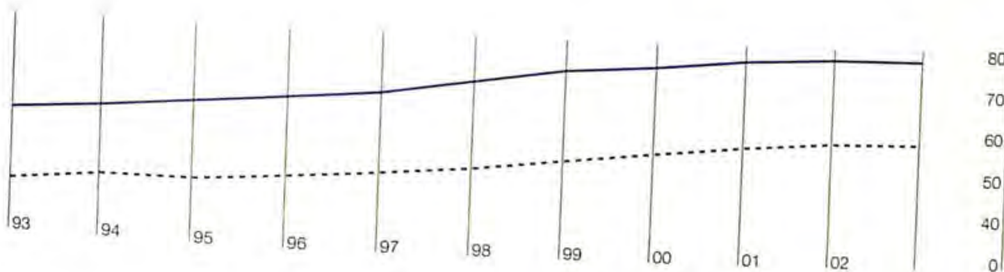
New competitors

No categories are safe from competitive incursion. Brands that consumers trust are invading all product and service categories. According to *Market Leader* journal, 15 of the world's top 20 retailers offer financial services, eight sell petrol and 14 of the world's top 20 financial services institutions combine insurance and banking. In our own industry who would have thought that a tiny, but powerful Hollywood talent agency would relieve the colossal McCann Erickson of the Coca-Cola account – (although the playing-field is more even now, given the departures of Sergio Zyman from the client company and Michael Ovitz from CAA and Disney). Or that management consultancies would start to look at the importance of branding and building revenues, having exhausted themselves on the opportunities of cost control and

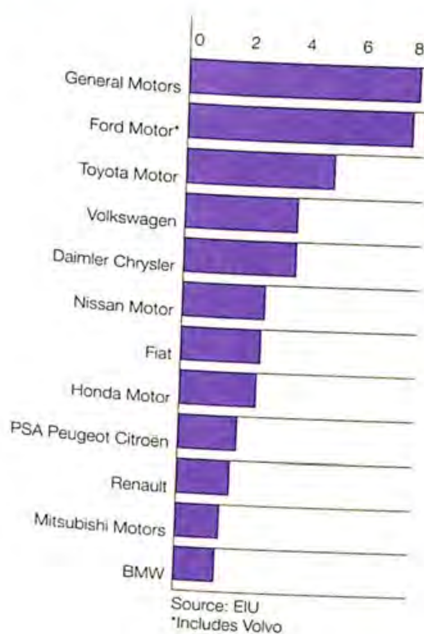
Car makers* m

— Capacity
--- Production

Source: Autofacts
*Includes commercial vehicles

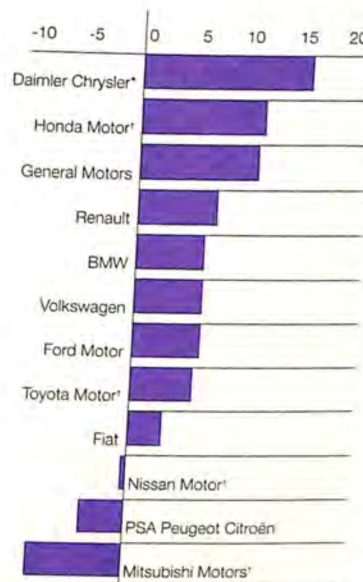


Car production m
1998 estimates



Source: EIU
*Includes Volvo

Return on invested capital
1997



Source: Compustat
*Pre-merger figure, refers only to Daimler-Benz
† Financial years ending March 1998

process re-engineering? All of this is exacerbated by the new technologies which reduce barriers to entry.

Geographical expansion

Given this background it is easy to see why clients have expanded geographically. Businesses have certainly become global, not in the Levitt sense with everything being marketed everywhere in the same way, but in terms of global exploitation of opportunity. However, the average American multinational follows the example of Pepsi-Cola with 80% of its sales in the US, rather than Coca-Cola, which is the exception, with 80% outside the US; a fact accentuated by the recent strength of the American economy.

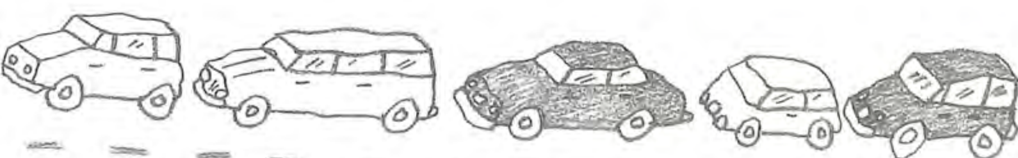
As a result, our business will continue to expand in Asia Pacific and Latin America, despite the volatility. Central and Eastern Europe will also recover in time, in spite of Russia assuming Brazilian-like significance in the region and Africa and the Middle East will assume greater significance, politics permitting. In the long term, if the world economy will grow at 3-4%, the US and Western Europe will grow at 2-3% and Asia Pacific and Latin America at 5-6%.

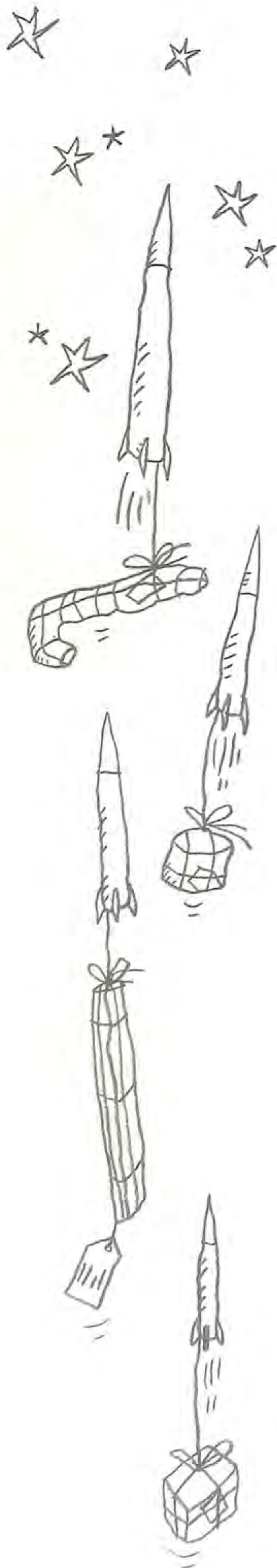
Three factors that will directly affect the nature of our relationship with our clients

Despite the variety of industries, functions and geographies that we deal with there seem to be at least three common factors that our client chairmen and CEOs face as we enter the next millennium – overcapacity, the new channels of distribution and internal communications. Our clients' response to these factors will in each case create new demands on our Group companies.

Overcapacity

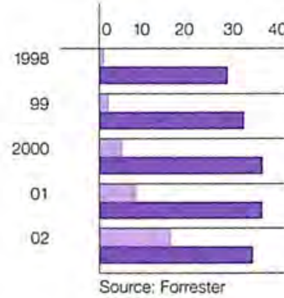
With very few exceptions, most industries face overcapacity. The automobile industry is a classic example. Most observers predict that the industry will be dominated by five or six major manufacturers in due course. However, the resultant lack of profitability and return on capital does not prevent additions being made to capacity, usually for the political reason of creating employment. For example in Brazil, capacity is being





US household Internet connections forecast m

Broadband
Narrowband

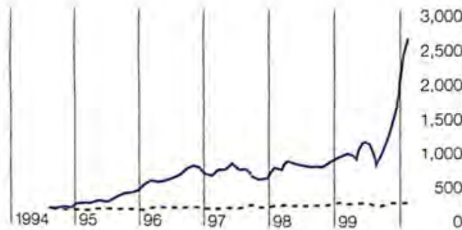


Source: Forrester

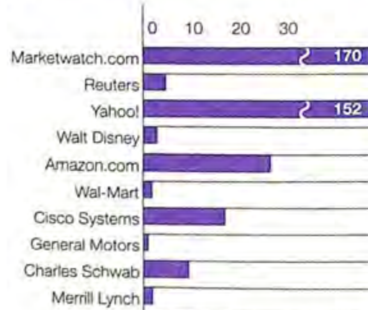
Internet share prices
August 1994 = 100

— Goldman Sachs Internet Index
--- S&P 500

Source: Datastream/ICV

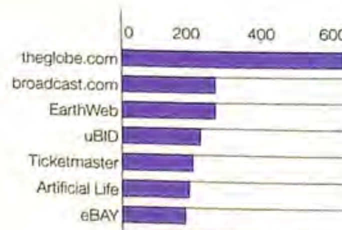


Market capitalisation as a multiple of sales*



Sources: Datastream/ICV, company reports
*Current market cap/ latest 12 months' sales

Best first-day gains of Internet IPOs 1998
% increase



Source: Securities Data Company

added to by state government subsidies for new plants in the interior. Brazil is unique as an automobile market, as not only are the Americans, the Japanese, the Koreans and the French there in force but so are the Italians – Brazil being Fiat's second largest market. Despite significant overcapacity in the market – the industry can produce 20 million more cars and trucks a year than it sells – the pace of production expansion continues.

So what is the significance of such overcapacity for communications services and our clients' use of their resources in this area? Well in such market conditions, differentiation, both tangible and intangible becomes critically important. It is only those companies who can differentiate themselves successfully who will succeed. The chairman and CEO has to be prepared to assume the mantle of the brand guardian and to increasingly look at ways that the corporate brand can be used to differentiate 'operating' brands. The corporate brand will become an increasingly important discriminator in an increasingly cluttered market place.

WPP was built over the last 13 years to respond to this challenge. Operating throughout the world not only in advertising, but in media planning, buying and research, in information and consultancy, in public relations and public affairs and in specialist communications, the Group seeks to develop the strongest and most coherent ways of differentiating its clients' products, services and brands.

The new channels of distribution

The new electronic technologies are having a major impact on the channels of distribution of all industries. Even industries such as education and institutions such as business schools face the same challenges as our clients with globalisation and technology impacting the structure of their industry.

Harvard Business School has recently developed three case studies on the strategy of the School given the new Dean's (or CEO's) three strategic imperatives of globalisation, technology and entrepreneurialism. The three cases on the California Research Centre, the Hong Kong Research Centre and distance learning mirror the issues facing global corporations

in the areas of international expansion, technology, new competitors and disintermediation.

The first impact of the new technologies is disintermediation. Middlemen are effectively being squeezed out of the process. For example, last year, WPP issued $300 million of corporate bonds through Merrill Lynch and J P Morgan. The whole process took about three to four months and involved a multitude of accountants, lawyers, bankers, brokers etc in a number of countries.

Today there is an extranet site on the Web, called Intralinks, that now distributes details of corporate bond issues, say on a Monday morning, to a closed loop of interested investors with standard documentation. A response is asked for by the end of the week. Already this site has successfully distributed over $1 billion of bonds. Just think of the impact this could have on intermediaries.

If this were not enough, added to disintermediation, is the fact that most of the new business models on the Web are lower margin and lower cost models. Gone are the days of the classic business school case study where new products were introduced and new channels were established where margins were enhanced. In this new era the new business models are lower margin.

Those with traditional or old channels are faced with the dilemma that if they do not cannibalise their own children, somebody else will. If they do not establish a strong competitive position in lower margin territory, they will have no position in higher margin territory. For example, how do you compete against buy.com, a Website that sells merchandise at 85% of cost? How do you compete against a competitor who sells below cost? The real problem with the Internet is that information is delivered free. It really is an anarchic business model.

Sadly, traditional channels never respond quickly enough to new channels. An old channel never develops a new channel quickly enough. Just take the challenges facing our three largest clients as examples. Can Ford Motor Company respond quickly enough to an Autobytel.com or Carpoint? Can Unilever develop direct-to-home grocery distribution without upsetting the traditional retailer or wholesaler? Can IBM develop direct distribution to compete with Dell or Gateway without upsetting its traditional sales force or other channels?

To address this challenge WPP has developed a two-pronged strategy. First, it is encouraging its traditional channels to develop leading capabilities in the new technologies. OgilvyOne Worldwide has been voted by *AdWeek* magazine amongst the world's leading interactive agencies and is the largest buyer of interactive media in the world. Millward Brown is the leading research company in evaluating the impact and return on investment of Internet advertising.

However, the second element of the strategy is to go direct too, by making investments in promising new technology areas, such as Wired Ventures in content, BroadVision in direct marketing, HyperParallel in datamining, Peapod in direct grocery distribution, Syzygy in Website development and Media Technology Ventures and MTEP in venture capital investments. The latter two funds have involved us in a number of areas including sports marketing, medical marketing/content and kids content, and enabled our operating companies to learn what is going on in these areas. With this bilateral approach we believe we will encourage our old channels to develop rapidly in the new technological areas and at the same time develop new approaches quickly.

Internal communications

All our clients are going through major strategic and structural change and explaining these changes internally is critically important. This is particularly so as a lot of these changes involve downsizing and reduction in headcount with which workforces understandably find it difficult to identify. In the case of WPP, ensuring that 33,000 people face in the same direction at the same point in time is extremely difficult.

As Allan Leighton of ASDA has pointed out in a brilliant presentation, engaging the internal audience may be even more important than external audiences. Motivated employees will satisfy and encourage customers; they will encourage potential employees to join the firm; they will develop better relationships with suppliers; they will encourage investment by share owners. Many years ago David Ogilvy was bemoaning the success of his agency and its increasing size. This was until he realised that on average each of his 350 employees had 10 or so close friends and that therefore there were 3,500 in New York who were hearing good things about his agency. The power of internal communication.

To respond to this challenge WPP has developed Banner McBride, a specialist consultancy in internal communications, from scratch in the UK two years ago and more recently in the US. The company is a joint venture between one of our public relations brands, Hill and Knowlton and our identity and branding company Enterprise IG. As acquisition of a suitable vehicle was too expensive, we preferred a start-up, and within 18 months Banner McBride has become a leader in its industry.

Issues facing the communications services industry

The right structure

Our industry's image is a modern one. We are thought of as being on the cutting edge of progress, focusing on new trends, fads and fashions and youth. In truth, we are probably more conservative than bankers or accountants or lawyers or even actuaries.

Although some of WPP's first generation companies have flatter more horizontal or client-driven structures, our mature, second or third generation businesses tend to have functionally driven, silo-like structures which are more rigid and bureaucratic and certainly have not changed for decades. This is the more surprising because our clients have gone through such significant structural re-organisation.

One of the virtues of our 'institutional' businesses, however, is their ability to learn from their clients by observing their changes. They see that clients are increasingly co-ordinating their businesses horizontally, not necessarily seeking economies of scale but economies of knowledge or learning.

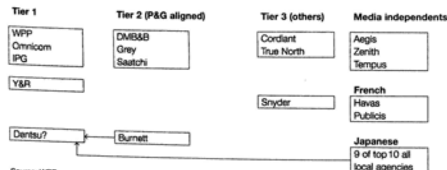
As a result agency structures will change, driven by client first, function second and geography third. These process changes will require the skills of the old organisation and methods

The oligopoly* of global advertising agency networks

Agency network	Parent company
The oligopoly	
BBDO Worldwide	Omnicom
DDB Needham Worldwide	Omnicom
TBWA International	Omnicom
J. Walter Thompson	WPP
Ogilvy & Mather Worldwide	WPP
McCann-Erickson	Interpublic
Ammirati Puris Lintas	Interpublic
Young & Rubicam Advertising	Young & Rubicam
DMB&B Communications	MacManus Group
Grey Advertising	Grey Advertising
Leo Burnett Worldwide	Leo Burnett Inc
Saatchi & Saatchi Advertising	Saatchi & Saatchi
The aspirants	
Dentsu	Dentsu
FCB Worldwide	True North
Bozell Worldwide	True North
Euro-RSCG	Havas Advertising
Bates Worldwide	Cordiant
FCB Publicis	Publicis
Lowe Group	Interpublic

Source: Goldman Sachs
*Limited number of competitive firms which control the market

Advertising, media planning, buying and research: major groupings



Source: WPP

experts, examining in a meticulous way how creative work is developed both at client and agency. Once processes have been analysed, the appropriate structure can be devised.

Unilever has recently developed its Advanced Brand Communications Programme with its club agencies with the objective of improving the process by which all communications programmes are co-ordinated and produced, improving the creative product and speed to market. If this programme is successful it may well prove to be a model for other client structures. It marks one of the first times that clients and agencies have worked together to try and improve their processes. After all it is of little use if one side or the other, client or agency, develops their structure in isolation.

Apart from working with Unilever on the Advanced Brand Communications Programme, WPP has also developed 21 test bed sites around the world where we can experiment with process at a city, country, region or worldwide client level. The objective is better work, faster. Filling in time sheets may not seem a particularly productive way to spend your time if you are a creative, but it is essential if we are to analyse our revenue streams effectively and allocate our resources productively.

It seems strange to me that a good local agency often returns 20% or so on revenues, whereas the best performing worldwide agencies return only 15%. You would think that there were some significant economies of scale in working with global clients and in the ability to amortise cost over a broader organisation. What seems to happen, however, is that significant layers of cost are added at the centre to deal with worldwide clients – often of the account handling variety, rather than strategic or creative. The result is a less profitable and often less responsive organisation. It seems that there is a major opportunity here for process and profit improvement. Maybe there is life after 14% margins in the year 2000!

The right size

Related to structure is the issue of size. The common view is that the larger an agency is the less creative it is. There is a similar view amongst clients about their own businesses. Often chairmen and CEOs complain about their 'culture' and desire to change it. I am not particularly fond of the word 'culture' in this context. No chairman or CEO wants to run a business that is slow, unresponsive or bureaucratic. Everybody wants to run a business that is consumer focused and share owner return driven.

Everybody wants a 'can do' approach where nothing is impossible. And everyone wants to run a business which has the power and resources of size with the entrepreneurial heart, mind and soul of a small company. Perhaps it is the new technologies that for the first time are making this possible and achievable.

Although clients want strong creative talent they also need the resources of global networks. Recent consolidations that reflect this trend include IBM, De Beers, Eastman Kodak, SmithKline Beecham, Kimberly-Clark, Ford, Mattel, Kraft Foods, American Express and Diageo (all good for us), Bayer, Reckitt & Colman, Colgate-Palmolive (did not affect us) and SC Johnson, Nabisco, Motorola and Citibank (bad for us).

Given this dichotomy you would think that there was an opportunity in the middle-ground for middle-sized agencies. This has certainly not seemed to be the case in the advertising industry where the mid-sized agencies have been acquired voraciously. Iconoclastic and idiosyncratic entrepreneurs who have historically (and hysterically) railed against the big battalions have succumbed for financial reasons (perfectly respectable) and because they felt out-gunned by superior geographical and functional resources. Hill Holliday, Campbell Mithun Esty, GGT, Mullen have all followed TBWA, Chiat Day, Scali McCabe Sloves, Ketchum and Ammirati & Puris into the hands of the big boys. From the acquirer's point of view there remains the problem of whether to consolidate and integrate these first generation, entrepreneurially-driven companies into their own structures or risk leaving them on their own.

However, as this middle market gap has opened up there may, for the first time be a new opportunity for a mid-sized agency which has both creative and entrepreneurial dynamism and resources on a sufficient scale. Large agencies find that the old 80-20 rule applies to their geographical locations. In other words 20% of the offices provide 80% of the profits. Perhaps there is a positioning for an agency with a relatively limited number of offices in say New York, Detroit, Chicago, Los Angeles, São Paulo, London, Paris, Frankfurt, Milan, Madrid, Tokyo, Hong Kong and Sydney with associated or franchised relationships elsewhere. This is certainly the structure that WPP is exploring with Conquest, its 'Challenger Network' and Batey, amongst others.

Big agencies will have to behave like small ones, demonstrating creative ingenuity and flexibility. Similarly small ones will have to behave like big ones, demonstrating depth of resource, coverage and co-ordination. These issues are no different to those facing our clients.

The big five

Recent major consolidation in such industries as oil and automobiles has been and probably will continue to be reflected in the communications services industry. Our industry will probably become increasingly concentrated around five or so groups. Currently these will include Omnicom, IPG, Young & Rubicam, Dentsu and WPP. Dentsu will shortly be following the example of Young & Rubicam's successful public offering and will secure the clout given by a public listing. They have already secured a powerful position by almost developing three 'chains' – their own, their joint venture with Young & Rubicam DYR and another that would follow from their negotiations to acquire a rumoured stake of between 10% and 40% in Leo Burnett, although the latter deal does seem to be delayed.

Many other groups find themselves in difficult strategic positions. True North, having increased its size significantly through the acquisition of Bozell, still has to develop the latter's international capabilities and prove that their resources can attract and retain multinational clients. Both Havas and Publicis remain heavily concentrated in France and Europe, the latter having been unable to forge a relationship with True North itself. Procter & Gamble's revision of its conflict policy will probably make life more difficult for its key agencies as alternatives will open up.

The private Procter agencies such as Leo Burnett and The MacManus Group will become even more acutely aware of their lack of financial resources and will either seek a public listing or merger partner or sale. It is difficult to see how Burnett's proposed one way partnership with Dentsu will give it sufficient financial fire-power without surrendering control. The public Procter agencies, Grey and Saatchi & Saatchi, have either succession issues to deal with or lack of coverage in functional or geographic areas such as Latin America. All have to raise their games in the media planning and buying areas. Finally, Cordiant, having supposedly split with Saatchi & Saatchi specifically because of the restrictions of the previous Procter conflict policy, needs to strengthen itself geographically and functionally to offer a credible organisation to multinational clients.

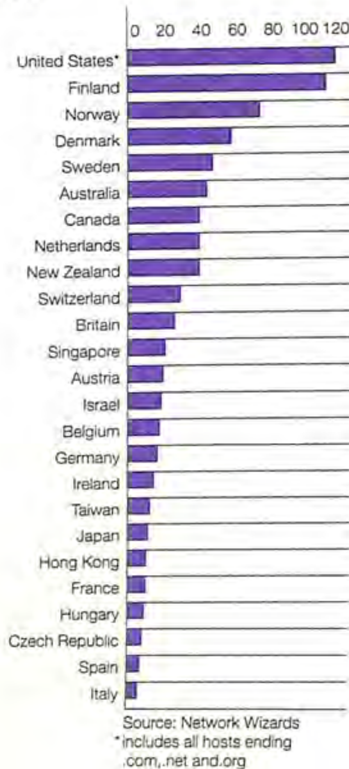
Finally, for the first time, the maj Japanese agencies are prepared to consider real equity-based partnerships, such as WPP's alliance with Asatsu-DK, Japan's third largest agency, as they wrestle with servicing the global expansion of Japanese based multinationals and worry about de-regulation and increased competition in their own market.

The communications services industry is going through an unprecedented era of structural change.

The right people

As an industry, we just are not aggressive enough in recruiting bright, young people. The two highest regarded occupations for first degree and post-graduate talent are investment banking and management consultancy, although Silicon Valley is becoming an increasingly attractive alternative destination. Something like one-third to 40% of some graduating classes enter these industries. Many in our industry complain that they are unable to attract bright young people primarily because of remuneration.

Top Internet countries
Internet hosts per 1000 population, January 1999



Source: Network Wizards
*includes all hosts ending .com,.net and.org

Leading Web advertisers 1997

	Spending $m
Microsoft	70.0
IBM	25.0
Excite	24.0
Yahoo!	11.0
Netscape	10.0
Infoseek	9.5
Ziff-Davis	9.5
Lycos	9.0
CBS SportsLine	9.0
NYNEX	6.5

Sources: Veronis, Suhler & Associates, Wilkofsky Gruen Associates and Jupiter Communications

Leading Web advertising sites 1997

	Spending $m
Yahoo!	80.0
Netscape	55.0
Infoseek	45.0
C/Net	40.0
Lycos	35.0
Excite	35.0
ZD Net	30.0
MSN	24.0
CMPnet	22.0
WebCrawler	20.0

Sources: Veronis, Suhler & Associates, Wilkofsky Gruen Associates and Jupiter Communications

One of WPP's responses to this problem has been to develop the WPP Fellowship Program. Over the last five years 50 first and second degree graduates have been recruited from 5,000 applicants for a three year multi-disciplinary, multi-country training programme after which each graduate is placed in one of the WPP operating companies. Each Fellow is mentored during the course which could include, for example, one year in London in advertising with J.Walter Thompson, one year in Chicago and San Francisco in market research with Millward Brown and a final year in public relations and public affairs back in London with Hill and Knowlton. The most surprising thing about the Program is the lack of response from competitors. Perhaps this explains the problem – very little interest.

The new media: transactions not advertising

Internet advertising has been growing rapidly. $25 million in 1995 in the US, $300 million in 1996, $900 million in 1997 and probably $2 billion in 1998. You could double those numbers for the worldwide Internet advertising market. But $4 billion is chicken feed in comparison to worldwide communications services expenditure of $950 billion, and even if it doubles every year will remain relatively small for some time to come. Website development is not a very good business, as anybody can enter the market with a man and dog operation.

However, what is really interesting about the Internet is the impact that it is having on transactional-based marketing and, indirectly, advertising. Dell Computer is already selling over $4 billion of personal computers directly over the Web. More than $12 billion of Cisco's sales, and more than half of Intel's $26 billion revenues are effected in the same way. Charles Schwab now completes two-thirds of its trades over the Web, from a standing start almost one year ago. The real opportunity for the marketing industry lies in developing transactional-based models which enable consumer and client to work together more closely, such as the work WPP has been doing with Ford, American Express and IBM.
All of which raises interesting opportunities to base agency charges on transactions completed rather than on billings placed or time spent.

Media monopolies and the increasing cost of network television

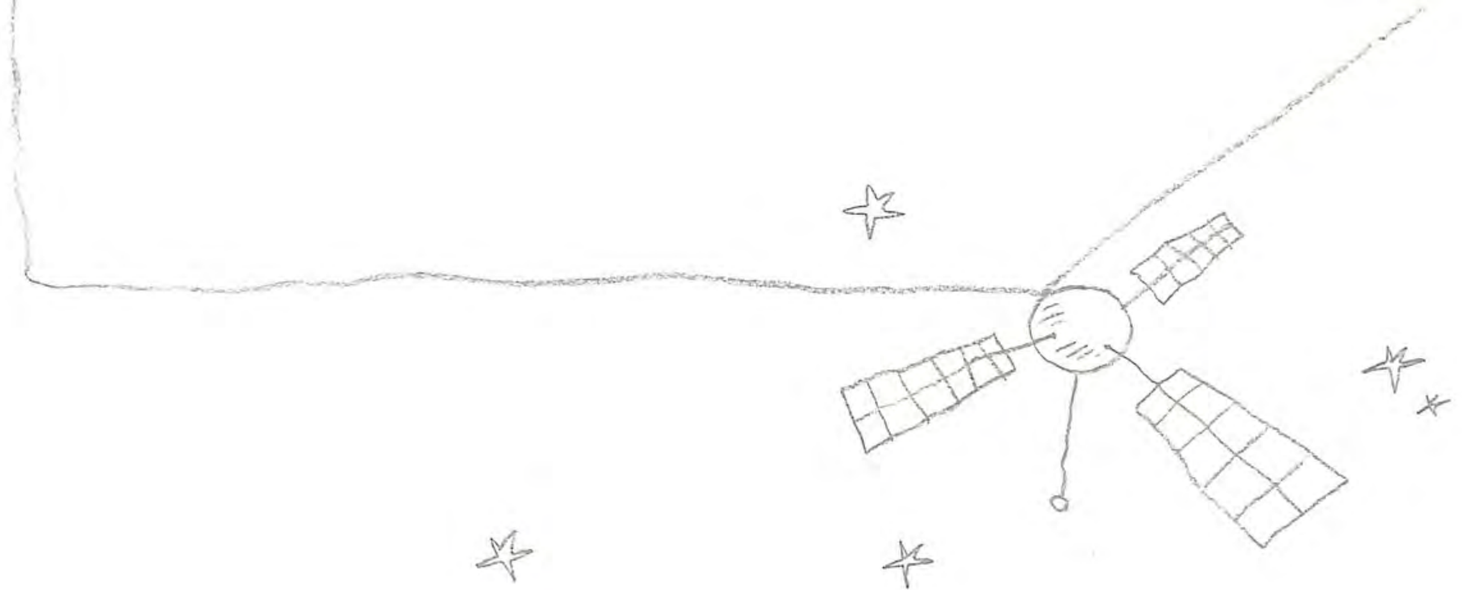
Media ownership continues to concentrate. More recently the emphasis has switched from horizontal control of the 'pipes', to vertical control of content. Apart from the political issues that this raises it also has a significant impact on pricing. News Corporation, Seagram, Disney, Viacom and Time Warner and now CBS are in even stronger positions to strengthen their pricing and profitability.

This influence is not restricted to mature markets. Families such as Azcarraga and Salinas and Marinho continue to dominate Mexico and Brazil, Cisneros in Venezuela and Malone and Hughes are extending their influence in Latin America with Murdoch interested in both Latin America and Asia Pacific.

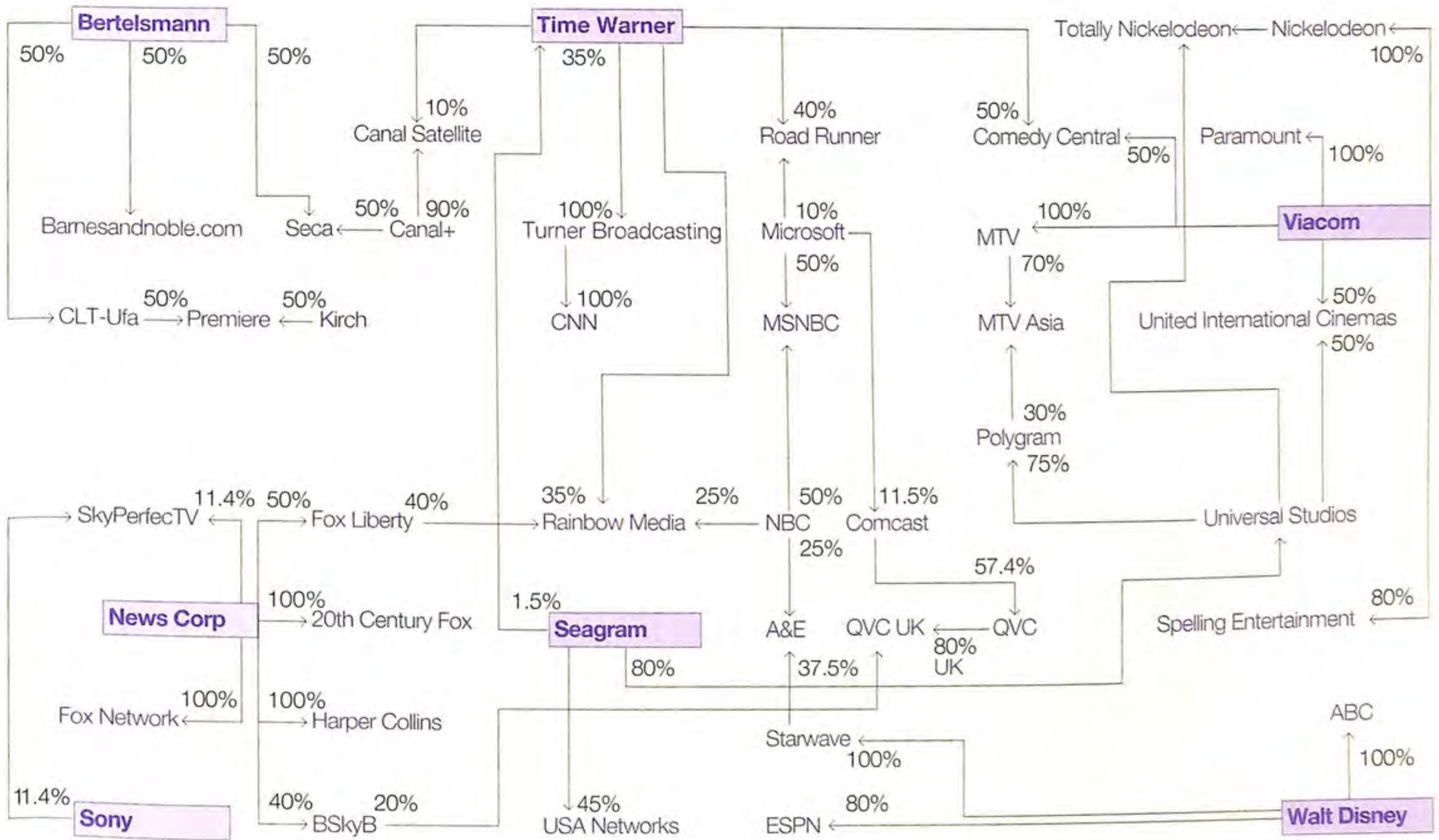
In America there are powerful cross-media operations such as CBS in television and local radio, where in the case of the latter penetration can be as much as 50 to 70%. In the UK, Granada, Carlton and United continue to control two-thirds of television network sales.

When strong economic conditions are added to this structure, the impact on prices can be severe. In the last two or three years whilst inflation has been pegged at about 2-3% on both sides of the Atlantic, TV network pricing has been rising by as much as 10% per annum. Not only because prices have been rising, but because audiences have been falling as media fragmentation intensifies. Not very pleasant for Procter & Gamble or Unilever who spend $3-4 billion a year on network television and are therefore losing $300-400 million in media efficiency each year.

In addition there is increasing concern about the quality of television audience measurement. Major clients have had concerns for a number of years about the quality and cost of the monopoly supplier in the US, and there is a feeling that the level of television audiences may be consistently overstated. WPP has been entering the television audience measurement market aggressively in 1998 through the acquisition of

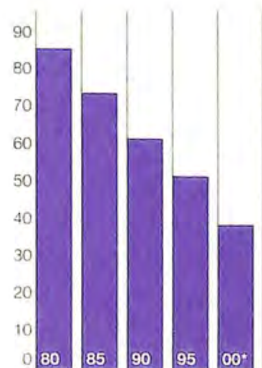


US media industry ownership



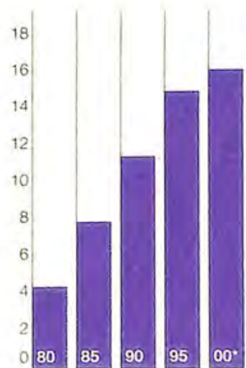
Source: www.arcchart.com

Network share continues to fall...
primetime share of ABC,NBC,CBS



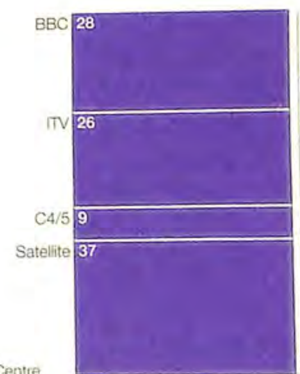
Source: Nielsen
*estimated

...as CPM continue to increase
primetime $



Source: Nielsen
*estimated

...and as satellite channels do well in UK multi-channel homes
as % of total



Source: The Henley Centre

Global top market research groups

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

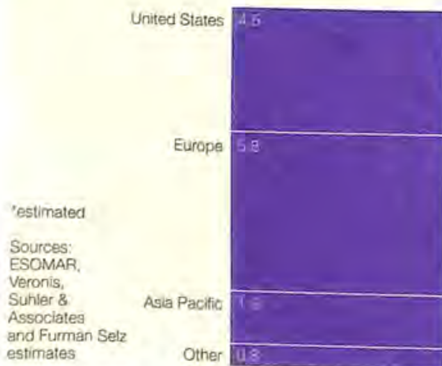
*Infratest Burke has recently been acquired by NFO
Sources: Honomich, Marketing News, WPP

Market research industry estimates $bn

	1997	1998E	2002E	CAGR 1997-2002E %
US	4.1	4.5	6.1	8.1
Europe	5.3	5.8	7.8	8.1
Asia Pacific	1.7	1.9	2.4	6.9
Other	0.7	0.8	1.2	13.4
Total	11.8	12.9	17.6	8.3

Sources: ESOMAR, Veronis, Suhler & Associates and Furman Selz estimates

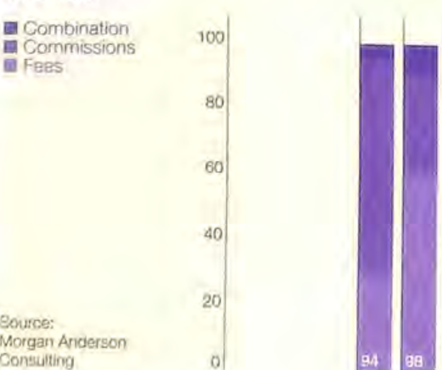
Market research industry size* in 1998
$bn



*estimated

Sources: ESOMAR, Veronis, Suhler & Associates and Furman Selz estimates

How large US advertisers pay their agencies
% of total



Source: Morgan Anderson Consulting

significant equity interests in IBOPE in Latin America, in AGB Italia, which has strong market positions in Europe and its first entry into Asia Pacific through the Philippines to complement IMRB's joint venture with Neilsen in India.

The client and agency response to this has to be to set up counter balancing media planning and buying points which harness skills in media research, barter, syndication, programming and sponsorship such as WPP's MindShare which links Ogilvy & Mather's and J. Walter Thompson's media planning and buying units throughout the world. If the key to property is location, location, location, the key to media planning and buying is volume, volume, volume but harnessed with the brainpower of resources such as research. Brain as well as brawn.

New global services

Advertising was the first global communications service.

The second was information and consultancy (or, more mundanely, market research). During the nineties, Kantar, the internal parent company for our information and consultancy businesses, has grown its top line organically by 14% per annum and built client relationships in custom research, copy testing and ad-tracking that span 30 or 40 countries.

Why? A number of reasons. First, as clients expand geographically they are looking increasingly for common languages to compare or contrast experiences. They are looking for economies of knowledge or experience. Secondly, as the pace of competition intensifies intuitive decision-making becomes more and more difficult. Hence the need to justify and reinforce their thinking with strong research. Finally, as costs have been squeezed, internal research departments have been reduced and increasing reliance has been placed on external suppliers. Perhaps the latter is inadvisable as the core competence of many consumer companies, particularly packaged-goods companies, is, or should be, consumer understanding.

The market research industry faces a particularly interesting challenge from the new technologies. Often CEOs of major companies despair at the lack of speed of research, pre-occupation with statistical techniques and lack of actionable and practical data. By the time the questionnaire has been prepared, the panels interviewed, the data analysed and delivered the problem has changed. Clearly Internet-based panels will change all this and offer quicker and more effective ways of analysing and acting on data.

In addition, as one-to-one marketing develops, as database management and data-mining become more significant and digital television, for example, gives access to even more accurate data, the direct marketing and market research industries will converge. In the case of WPP, for example, it may well be that OgilvyOne Worldwide will have just as much in common with Kantar as an advertising agency. Data-mining gives clients the opportunity of identifying what products or services will develop customer relationships more effectively and give greater longevity as well as focusing on heavy users. Previously this would have been done by using slower research-based techniques.

Another challenge to market research is to move up the value chain, to occupy the CEO's office. WPP's Millward Brown has done this through Brand Dynamics and more recently through BRANDZ™ which enables clients to measure brand strength or voltage, understand what is driving a brand, and measure what impact a shift in positioning will have on market share and hence volumes and profitability – another move closer to the holy grail of being able to accurately measure the return on investment on marketing expenditure.

The third communications service was global identity and branding as companies expanded on a worldwide basis, grew increasingly by merger and acquisition and in an increasingly competitive world sought intangible ways of differentiating themselves. In these circumstances it is not difficult to see why corporate brands will become more powerful as consumers and employees will have greater faith in companies they can trust. WPP's response to this has been Enterprise IG, the world's largest corporate identity firm, with operations in San Francisco, New York, London, Hamburg, Hong Kong and Taipei.

Becoming more strategic

There are three things we do for clients – strategic thinking, creative execution and co-ordination. As a result of increasing competitive pressures, clients have increasingly become reliant on us for the latter two. Creative hip-shooting has become more important than strategic brand development.

At the same time some of the leading strategic consulting companies have been turning their attention to the demand side and suggesting, like McKinsey & Co., that clients may be spending too much on advertising, at least in the developed markets. In contrast, Bain has been advising on a switch in spending from trade promotion to brand spending. Still, it is all advice in the marketing area. Given the increasing costs of television advertising, the difficulty of measuring advertising effectiveness, short-term profit pressures and the significance of advertising outlays, clients have been responsive. With the growing realisation that all business strategy is really marketing strategy, starting with the consumer and working backwards, the consultants have started to examine the touchy-feely areas of marketing and advise on the size and optimisation of marketing budgets.

Our industry has to respond. At WPP we do not have the whole answer to this opportunity yet. The nearest we come to pure consultancy is The Henley Centre and we have not been able as yet to scale this opportunity. Our specialist communications companies are moving into these areas with highly specialised strategic marketing consultancies covering retailing, where we have a very powerful offer, interactive, healthcare and information technology. We have developed interesting approaches in measuring the return on marketing investment and are particularly encouraged by the inroads we are making in this area through BRANDZ™. We will continue our search for the right mix between acquisition, start-up and developing existing units.

Our remuneration

Time-based fees represent about two-thirds of our revenues as information and consultancy, public relations and public affairs and specialist communications are almost totally fee-based. In our advertising business, billings-based commissions still represent two-thirds of our business (one-third of the whole), which is less than that claimed by recent surveys which indicate that fees represent two-thirds of remuneration even in the advertising industry. This probably reflects our client base and the significance of national clients who tend to be more commission-based.

However, the drift to fees is no bad thing as it encourages us to focus on our business, measure the allocation of our resources and time (after all that is what we sell) and smooths the flow of our revenues. In many cases our clients have reviewed the commission system and stayed with it. For example, both Unilever and Nestlé have reviewed their approach and stayed with commissions around the 13% level including commission for media buying of 1.5-2%. With both commission and fees there is an increasing tendency to pay success supplements based on achieving client sales goals, market share or profitability targets or agency evaluation scores. It is likely that this trend will be accelerated by the growth of new media which are more easily measurable and the desire for accountability. It probably also acknowledges the important role that communications services businesses can have in building brands.

Procter sets the agenda

Procter & Gamble is still the world's largest advertiser spending $3.7 billion a year worldwide and most of it on network television. Observing Procter's behaviour is interesting not only because it indicates changes in clients' thinking but encourages imitation.

About 18 months ago Procter held a pow-wow in Cincinnati for its agency heads where it compared its agencies to IPG, Omnicom and WPP in terms of functional and geographical spread. Clearly Procter felt it did not have available the appropriate levels of agency resources.

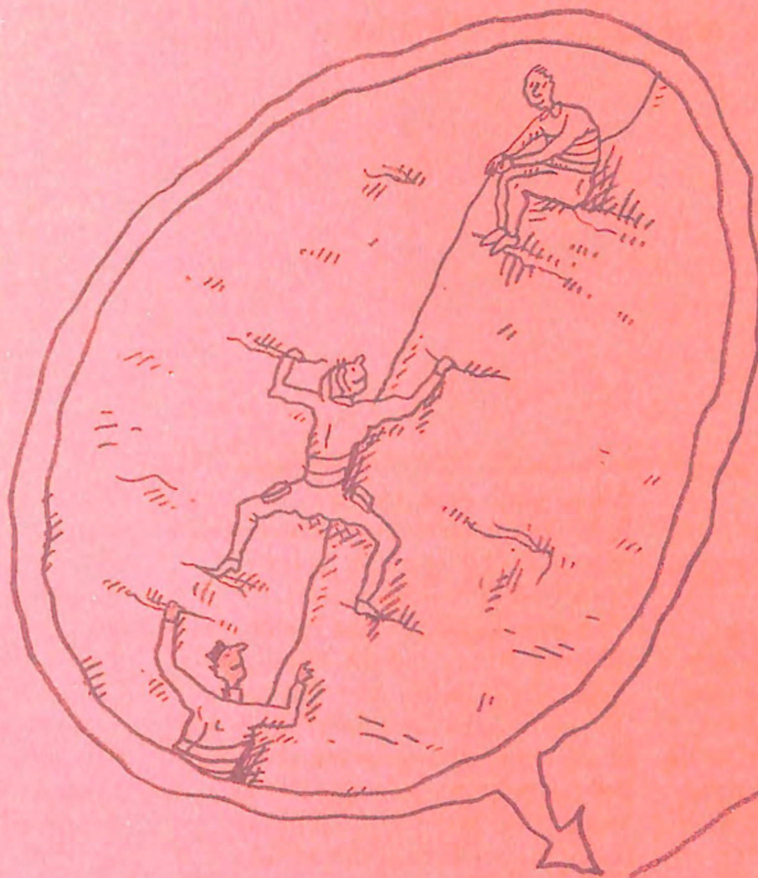
A few months later another meeting was initiated in Cincinnati, this time to discuss opportunities in the new media. In an unprecedented step, other invitees to this conference included competitors like Unilever and agencies that were not traditional Procter suppliers. This clearly reflected a feeling that Procter's traditional agencies had not picked up on the challenge issued by a previous chief executive, Ed Artzt, in a speech some four years earlier.

Whilst Procter was clearly ruminating on its agency capabilities and questioning the strength of its private and structurally challenged agencies, it initiated a review of its media planning and buying capabilities in 1998, finally deciding to award the bulk of its worldwide business to TeleVest, the media buying operation belonging to the MacManus Group. As a result of this concentration of media buying in one of its agencies, Procter is now reviewing the remuneration of its creative agencies and how they should be compensated. The indications are that it will move to a fee basis with incentives for success – only sensible given the unbundling of the media assignment.

In the last few months it is rumoured, although not yet finally confirmed, that Procter will alter its conflict policies. Rather than basing conflict analysis at the holding or parent company level, Procter will now look through the top level at each individual agency to determine whether there is a conflict. There is even a suggestion that Procter will examine each agency at a category conflict level (e.g. if the agency does not have a conflict in the paper products category alone it would be free to act). This marks a significant shift in approach and will have major implications for conflict alignments amongst major agencies and the possibilities for acquisition. IPG, for example, could theoretically acquire Leo Burnett, Grey, Saatchi & Saatchi or The MacManus Group, other conflict situations permitting. Obviously this is not a one way situation, in that it also depends on what Unilever or Kimberly-Clark or Henkel or Kao is prepared to accept, but it does represent a radical and unprecedented shift in client thinking which may influence others. It certainly moves the communications services industry towards the model accepted by clients in the investment banking, consulting and audit and accountancy industries.

END.

How we're doing



Operating and financial review
Competitive, geographic and sector performance

Competitive performance

There is still a significant profit opportunity in matching the operating margins of the best-performing competition. The best-performing competitive listed holding companies, The Interpublic Group of Companies Inc. (IPG) and Omnicom Group Inc. (Omnicom) achieve 15-16% operating margins, whilst their best-performing individual agencies such as McCann-Erickson Worldwide and BBDO Worldwide are estimated to achieve operating margins of 17%-18%. This compares to a WPP parent company margin of 12.8% and combined agency margins at Ogilvy & Mather Worldwide and J. Walter Thompson Company of 15.4%. Competitive listed public relations companies such as Shandwick plc, which has now been acquired, showed operating margins of more than 10% which have now been more than matched by our own operations. As mentioned before operating management has indicated that margin performance can be improved even further.

Over the next two years we are targeting a further overall improvement in margins of 1.2% to bring us more into line with these competitors.

Geographic performance

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.

There is little doubt that problems in Asia Pacific and Latin America will have an impact on worldwide growth of gross domestic product. Most commentators predict that this will slow worldwide growth in 1999 to at least 2-3% as opposed to 3-4% in 1998. There are some signs that the problems in Asia Pacific are ameliorating particularly in Thailand, the Philippines and South Korea.

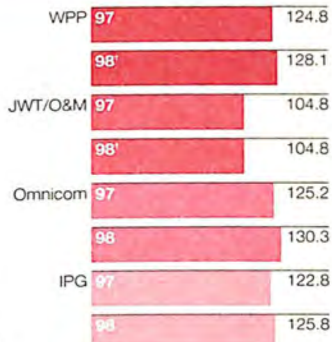
However, the problems facing Latin America have become more worrying following the Brazilian currency crisis and devaluation. Our budgets for 1999 indicate a like-for-like growth rate of around 5% for Asia Pacific and Latin America. On the same basis, in the first three months of 1999, revenues were down 1% compared with last year, reflecting poorer performance in Latin America, especially Brazil.

Despite the events of 1998, your Board continues to believe that Asia Pacific will offer superior opportunities for growth in the medium to long term along with Latin America, Africa and the Middle East and Central and Eastern Europe. These markets now account for more than 17% of the Group's revenue as opposed to 13% in 1992 despite the recent slowdown in growth and currency devaluations. These markets are still forecast to continue to grow at significantly faster rates than those of North America and Western Europe in the long term.

Sector performance

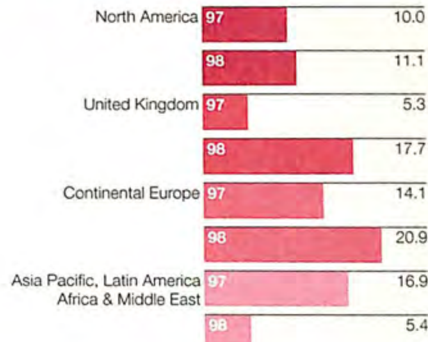
On the following pages the heads of our eight operating brands summarise their operational activities and highlights for 1998.

Competitive performance
Revenue per head $000



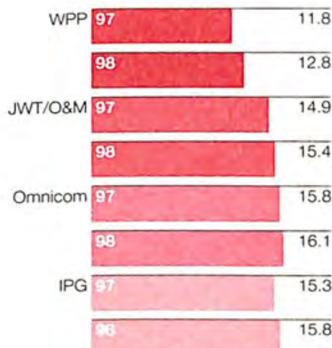
¹Constant currency

Geographic performance
Constant currency revenue growth %

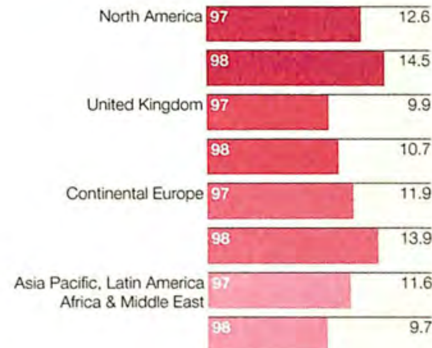


Sector performance
Constant currency revenue growth %

PBIT margins %

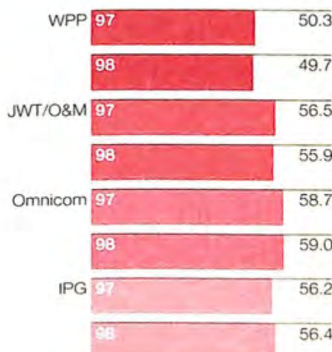


Operating margins by geography %

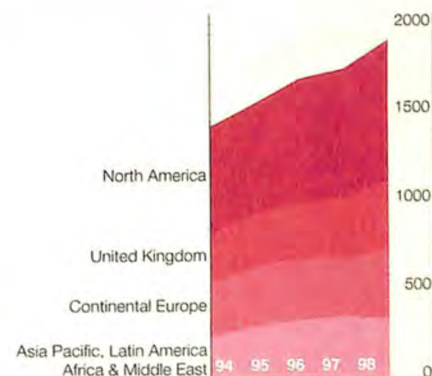


Operating margins by sector %

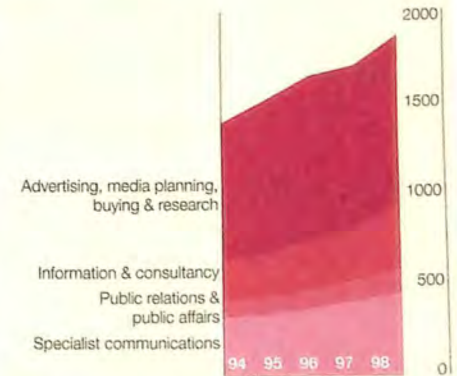
Staff cost to revenue ratio %



Revenue by geography £m



Revenue by sector £m



Advertising, media planning, buying & research

Combined advertising, media planning, buying and research revenues at J. Walter Thompson Company and Ogilvy & Mather Worldwide rose by 8.1%. Combined operating margins were 15.4%. Combined operating costs rose by 8.4% and the combined staff costs to revenue ratio fell to 55.9% from 56.2%. J. Walter Thompson Company generated net new billings of £226 million ($374 million) and Ogilvy & Mather Worldwide £212 million ($349 million). MindShare generated net new billings of £478 million ($788 million).

Conquest Europe's revenues rose over 24% and operating profits and margins were up sharply. Net new billings were £33 million ($54 million).

Shelly Lazarus
Chairman and chief executive officer
Ogilvy & Mather Worldwide

Charlotte Beers
Chairman
J. Walter Thompson Company

Chris Jones
Chief executive officer
J. Walter Thompson Company

Ogilvy & Mather Worldwide

This year marked Ogilvy & Mather's 50th anniversary. Along with worldwide celebration came reflection: about our company, our culture, our future, and our celebrated founder, David Ogilvy.

David Ogilvy's original mind and passion for the business set us on a course many years ago. His values – his belief in brands, creativity, intellectual rigour, and humanity – are the values that guide us today.

I would call 1998 a Classic Ogilvy year. We simply executed our strategy. We focused on brands while moving brand thinking and delivery significantly beyond traditional advertising to what we call 360 Degree Branding™ – bringing the brand to all points of consumer contact. We focused on existing clients for new business. We strengthened our network with critical acquisitions, many in non-advertising specialties. And above all, we focused on the work.

As an agency that believes awards are the by-product and not the goal of good work, we were gratified by the volume of major awards won in every region – well over 100. Two of many stand out: In Asia – where we held strong despite regional turbulence – we were named *Media Magazine*'s Agency of the Year; and from Cannes we took home two of the first ever Cyber Gold Lions, proof creative branding has no boundaries.

Those boundaries are disappearing fast as clients increasingly recognise the need to deliver the brand consistently across the range of communications, and look to partners who can do that – in direct, public relations, interactive, design, collateral and so on.

Integration is one of the reasons OgilvyInteractive is our single fastest growing division. It grew an astounding 600% last year – making us the leading global interactive network, largest Internet media buyer and the only top-ranked interactive group *inside* a major global agency.

Integration is not just happening within Ogilvy. There are examples all around our network of projects with other WPP partners. This kind of cross-pollination is key to 360 Degree Branding™. As the smart doctor said to his patient: "I may not know everything, but I know everyone who does."

Another classic Ogilvy tenet has served us well: Current Clients First. Our best source of revenue growth continues to be from existing clients. Highlights this year include added assignments from Nestlé (Perrier), Kraft (cereals worldwide), American Express (direct worldwide), Unilever and IBM.

Of course, we still welcome new clients. In December we won the $1 billion, five-year anti-drug media campaign on behalf of the US office of National Drug Control Policy, the largest and most complex social marketing campaign ever undertaken by the US Government.

So what do I predict for the next 12 months? I see more of the same; more great creative work that builds our clients' brands; more assignments from those clients; more strategic acquisitions; more ownership of interactive; more skillful 360 executions; in short, more success all around.
Shelly Lazarus

J. Walter Thompson Company

J. Walter Thompson finished the year bigger, stronger, with a renewed conviction that building successful brands is not only a passionate goal, but what we do best. As we approach the new century, new technologies that bring us close to consumers offer the promise of exciting and ever-stronger brand building capabilities.

1998 was a year of new opportunity and new horizons. We have reinforced JWT's capabilities to build a strong foundation for the future. New client gains in every region resulted from the emphasis on smart, strategic thinking combined with creative excellence that tugs at the emotions.

In North America, new assignments included Ragu Sauces from Unilever, Nabisco and Centura Banks. Europe

and Africa were especially strong, winning Arab Bank, British Airways, LG Electronics, E.A. Generali Insurance, 20th Century Fox, Minolta Business Equipment, Panasonic and P&O Stena Line. In Latin America, JWT won Ermenegildo Zegna/Wear, Inresa-Mabe home appliances, Las Americas Hotel Group and Goldstar, while in Asia Pacific, AIG, Pizza Hut, Trane Air Conditioners, IMAX and Berrivale Orchards joined the roster. Worldwide, we were awarded impressive global wins from Siemens, Merrill Lynch and TNT.

Our commitment to existing clients was rewarded with expanded relationships with Ford, Kimberly-Clark, Kraft, Nestlé, PepsiCo, Shell, Unilever and Diageo's UDV division.

In partnership with our clients, we also launched some of the biggest product introductions ever. On both sides of the Atlantic, Unilever created smash hits with JWT creative: Thermasilk is now the third best selling line of hair products in the US; and Persil Tablets revolutionised laundry day in the UK. Kelloggs launched Smart Start, a multi-grain cereal that has been a big success, and Warner-Lambert entrusted JWT with the global launch of Schick's new Protector razor – a single campaign designed to work across markets worldwide.

We strengthened our global network with new talent and new acquisitions. JWT expanded North, South, East and West with new agencies in Germany, Norway, the Baltic States, Brazil, Mozambique, Nepal and Japan. ThompsonConnect, working in various direct marketing disciplines, launched last year, and grew to a network of 23 offices employing 600 people.

This year finds us following the great J. Walter Thompson tradition of innovation and self-renewal, welcoming our new Chairman, Charlotte Beers, and committed to completing the transformation we've begun. It's an exciting and challenging prospect.

By the end of 1999, J. Walter Thompson will be a truly worldwide brand communications agency, dedicated to fostering creativity through every function and at every level of the company on behalf of every single client.
Chris Jones

Conquest

What a year for the European Challenger Network.

From January to December, every month has seen big news from different markets, involving both new and old clients and partners.

The Nikon campaign, developed by our London office, won a Silver Lion at the Cannes Festival and six other major awards. Ads from Hoechst and Alfa Romeo were selected amongst the top 10 (out of more than 2,000 ads) by readers of Der Spiegel, Germany's most influential news magazine. Nestlé's Maxibon ice cream has got its 17th award in Italy and has increased sales for the fourth consecutive year.

Alfa Romeo 156 has become a European case history demonstrating how to become a unique brand and a runaway success in a hugely crowded and competitive market. Clients really seem to take up the Challenger spirit.

New partners came aboard. In Belgium: Luc De Tilesse and Jean Francoise Libouton (they are never satisfied). In Italy: Mauro Toscano has joined Pietro Maestri (they just don't like to be satisfied). We also have a new network CFO, Kathryn Herrick (who doesn't know what satisfied means). Our people definitely take up the Challenger spirit.

There were no major client losses. We were awarded new assignments from existing clients like Iveco and Bank of Scotland. We also won new clients in the form of the Puerto Rican Tourist Board (an international win from Madrid), Wind (the new telecom challenger in Italy) and Sunday Business (a business rival to the Financial Times in London). All in all they helped us to grow both revenues and profits significantly. Will our share owners embrace the Challenger spirit? We all hope so.

In the meantime we are preparing ourselves for the new millennium with new partners and new systems to ensure that our clients brands continue to become the most successful in Europe.
Luca Lindner

MindShare

1998 was MindShare's first full year so our emphasis was very much on building the business. Building both our network and building our product portfolio.

When MindShare was launched in late 1997 we had identified a clear opportunity to have a world-class company that was able to research and plan media in new ways and was able to buy those media at the most competitive rates.

In 1998 the wisdom of that strategy became even more obvious as the media landscape continued to change and fragment in a direction that was predictable but at a speed that was quickening all the time. Media has become a game only for the strong and the quick.

Working with the Group's research companies, we have developed enhanced planning tools and systems to help guide our clients through this fragmenting picture. Accountability has been our focus as these clients seek to justify every penny spent on media old and new, and our strong buying credentials have never been more important.

We have been rewarded with new assignments from clients including Ford, Kimberly-Clark, Thomson Holidays, Unilever, Shell and Nestlé. We expect the pace of change to quicken in 1999 and for MindShare to be even stronger as a consequence.
Dominic Proctor

Dominique Simonin
Chairman
Conquest

Luca Lindner
Chief executive officer
Conquest

Dominic Proctor
Chief operating officer
MindShare

Information & consultancy

The Group's information and consultancy businesses continued their strong growth with gross profit rising by almost 24%. Operating costs rose by over 19%. As a result, margins rose by 1.7% over the previous year. Particularly strong performances were recorded by Research International in Belgium, Brazil, Germany, Greece, Italy, Japan, the Netherlands, Spain and Australia; at Millward Brown in the UK, US, France, Canada, Italy and Singapore, at Kantar Media Research through BMRB UK, Winona and IMRB.

Phil Barnard
Joint chairman
The Kantar Group

Martin Goldfarb
Joint chairman
The Kantar Group

David Jenkins
Chief executive officer
The Kantar Group

The Kantar Group

1998 was a year of record growth for Kantar. This was achieved both organically and through a vigorous acquisition programme which saw 12 new companies join our group to strengthen further our strategic capabilities and client offer.

Our companies generated their growth from existing clients (thank you!) and from new business wins with 17 one million dollar-plus new projects. It was particularly pleasing to see our companies achieve this success against considerable market difficulties in Southeast Asia and South America.

The acquisition programme moved us towards fulfilling a number of our strategic objectives: either increased geographic reach in developing markets (e.g. Research International in South Africa and Korea) or strengthening our North American presence (through Conway Milliken and Goldfarb Consultants).

January 1998 saw the launch of Kantar Media Research which is dedicated to becoming *the* global provider of a full range of media research services, Television Audience Measurement, print and multimedia measurement and software systems. We made significant progress in Television Audience Measurement through our existing businesses and our strategic stakes in IBOPE Media and AGB Italia, where we now provide ratings in 25 countries; more than any other player in this high profile area.

Our clients' interest in their brand equity underpinned last year's technical developments in our core survey research businesses. Research International rolled out its Equity Engine product around the world with a series of successful client launch conferences. Millward Brown produced BRANDZ™ for WPP, the most extensive brand equity project ever conducted by a marketing services company. 70,000 people in seven countries gave their views on the strength and vitality of 3,500 brands. This huge database is accessible to around 400 people in WPP companies via Web browser technology for the benefit of their current and potential clients.

In 1999 the study is being doubled in size as more countries and brands are added.

Last year's explosive growth of the Internet around the world confirmed our belief in the powerful and positive effect it will have on our business. We have made, and will continue to make, significant investments to ensure we are at the forefront of its application to both our own and clients' needs, whether they are traditional or Internet-based businesses.

Looking forward, we will continue with work started last year to position the Group to benefit from the convergence of market research and customer databases to ensure we offer our clients a comprehensive range of information-based products and services.

David Jenkins

Public relations & public affairs

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

Hill and Knowlton's revenues rose by over 15% and operating costs by over 12%. As a result, margins increased to over 10%, ahead of target and schedule.

Ogilvy Public Relations Worldwide's revenues rose by over 31% and operating costs by approximately 25%. For the second year in a row following the change in leadership, profitability and margins improved significantly over the previous year.

As a whole this sector showed operating margins of more than 11%, in excess of the Group's objective for 1998 and in line with the best performing publicly listed competition.

Howard Paster
Chairman and chief executive officer
Hill and Knowlton Worldwide

Bob Seltzer
President and chief executive officer
Ogilvy Public Relations Worldwide

Hill and Knowlton

Named 'International PR Agency of the Year' by *Inside PR*, Hill and Knowlton achieved a key strategic objective – demonstrating the best transnational offer among major public relations agencies.

Reconfirming our commitment to provide the best local service in the 32 countries in which we operate, we continued to improve our transnational capability by adding to our products and services and expanding geographically to meet client needs.

The following highlights from 1998 reflect the company's progress in our growth, our breadth of services, and our ability to meet stated objectives:

– To provide clients with creativity and consistency in a demanding consumer marketing industry, we unified our marketing units into a global practice, with overall strategic direction provided by a worldwide marketing practice director.

– By adding significant depth to our US technology capability with the acquisition of Blanc & Otus, a highly regarded technology PR firm, we were able to launch a global technology practice building on strong resources in many markets.

– Similarly, based on a need documented by research and client petition, we formed an internal/employee communications start-up, Banner McBride North America, with WPP partners Banner McBride UK and Enterprise IG.

– Responding to client requirements and business opportunities, we blended newly-established offices in Moscow, Bangkok and Santiago into our system.

A strong and well-recognised public communications firm, Hill and Knowlton expects further substantial progress in 1999 in augmenting our global offer while maintaining the focus on delivering the finest service at the local level.

Howard Paster

Ogilvy Public Relations Worldwide

With a growth rate of nearly 42%, Ogilvy PR finished 1998 as the second fastest growing firm of the world's top 50 public relations agencies.

Our growth was measured, however, by more than simply revenues.

We expanded our offices from 23 to 38 around the world.

We acquired Alexander Communications, now Alexander Ogilvy, the premier technology firm known for being the best-connected agency at the heart of the exploding technology community. The acquisition has brought us into new US markets – San Francisco, Silicon Valley, Atlanta, Dallas, Boston and Denver.

We added some of the world's best-known brands to our roster – Coca-Cola, Merrill Lynch, the BBC, Perrier, eToys – and built our existing brands Merck, IBM, Quaker, Glaxo Wellcome.

Our European presence blossomed under the new president of Europe Paul Philpotts, with growth of better than 30% in London and 45% in Brussels. And our Washington DC office grew a remarkable 36% to become our largest office.

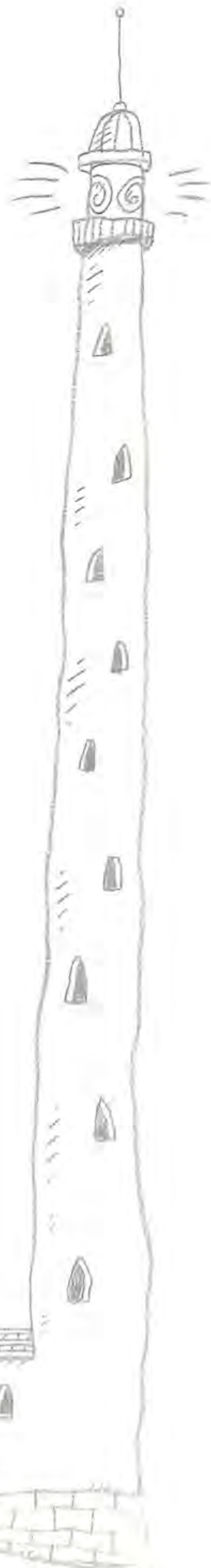
We developed our expertise in a number of critical areas, fashioning new products to serve our clients, including internal communications 'Workplace Performance', crisis 'BrandShield' and interactive communications 'IMpact'.

Our efforts to service clients on a global basis expanded dramatically with new clients such as NCR, and existing clients such as Novartis and Wyeth-Ayerst.

We continued to provide the stellar client service that has made Ogilvy PR the hallmark for long-term client relationships, winning five Creativity in Public Relations Awards, and ending 1998 with 18 of our top 20 clients signed on for 1999 with equal or higher budgets.

Based on the fact that we grew our staff by nearly 200 people and had one of, if not the, lowest turnover rates of employees anywhere in the PR industry; Ogilvy PR enters 1999 pumped!

Bob Seltzer



Specialist communications

Specialist communications' revenues rose by 12%. Gross profit rose by over 20% and operating costs by over 19%. As a result, overall operating margins increased.

Specialist communications comprise over 30 individual companies, each offering clients expertise in a different marketing discipline, audience segment or industry sector. The companies share a common mission – i.e. to *concentrate* the power of insight and communication to produce extraordinary results for our clients, and 1998 saw significant progress in each area of concentration.

John Zweig
Chief executive officer
Specialist communications

Specialist communications now encompasses some 40 individually branded client-service platforms, each offering depth expertise in a particular industry sector, audience segment or marketing discipline. Our purpose in assembling so many and varied business units goes beyond the aims of a diverse portfolio simply accommodating future trends in communications – clients today seek specialised knowledge and skill on all fronts simultaneously. Our combined resources make it possible to reach any target audience, in every location, through virtually every medium, in support of even the most technical product categories.

Our challenges are to meet this demand for specialisation yet still surpass our competitors in our ability to deliver integrated marketing services; to maintain the focus and flexibility of small enterprises yet capitalise on WPP's scale and reach; and to add selectively to our capabilities through acquisitions while fostering innovation and start-ups when they can be developed internally.

We have made real progress and gained important learning in all of these areas, as the following highlights of 1998 illustrate:

Sector marketing

Our international reach was extended through the acquisition of Gowers Advertising in London and the formation of CommonHealth Australia, creating a network of 13 points of service throughout the world.

As media spending for prescription drugs directed to consumer audiences skyrocketed to $1 billion in the US alone, CommonHealth start-up The Quantum Group became the largest DTC agency and one of its brand assignments, Claritin, was awarded DTC Campaign of the Year (*DTC Times*).

Building on the success achieved in healthcare, we acquired The Food Group, which is the leading agency specialising in food and food service; a European office has already been opened through a specialist communications partner company.

Management Ventures, our thought leaders in global retailing, trained over 2000 people in four continents, and involved over 40 of the world's largest suppliers, in share groups focused on

key customer understanding and account development.

MSI/CRS was chosen to provide a keynote speech at the Microsoft Reseller Executive Summit featuring Bill Gates and 40 of the world's top CEOs representing technology industries.

Geppetto, our kids' and teens' marketing experts, participated with Ogilvy & Mather in competing for and winning a highly visible assignment from the US office of National Drug Control Policy. Also in cooperation with Ogilvy, Geppetto created and executed a new global concept for KFC.

Mendoza Dillon & Asociados was awarded the prestigious 'Partners in Progress' distinction from Sears for the third time in four years, for its outstanding work in developing the Hispanic consumer franchise.

Promotion & relationship marketing

RTCdirect was responsible for two of the top 10 loyalty marketing programs – Schering Corporation and Mead Johnson Nutritionals (cited by *The Database Marketer*, December '98) – and launched a joint venture with CommonHealth called The XChange Group.

Einson Freeman won the 'Best Promotion in the World' for the Health and Beauty Aid category in the World Pro Awards in 1998.

Media & technology services

To capitalise on the convergence of communication technology with media, Metro Video and Clever Media realigned and rebranded under the banner of The Clever Group.

The acquisition of The Tyrell Corporation created a world-class sales and technology support team for the entire Avid and SoftChange product line.

Strategic marketing consulting

The Henley Centre relaunched and repositioned Planning for Consumer Change, and partnered with Ogilvy PR in supporting DGXIII (European Division).

Branding & identity

Our corporate positioning and identity consulting businesses in North America and Europe changed their names to Enterprise IG to reflect the significant progress made towards delivering true global capabilities.

Windi Winderlich Design, European leaders in product branding and packaging was acquired and also changed its brand to Winderlich Enterprise IG.

The Nations Bank/Bank of America merger was among the largest identity programs, supported by the Equitus corporate brand equity model – a joint product of Research International and Enterprise IG consulting services.

John Zweig

Turnover was up 9.8% to £8 billion, revenues up 9.8% to £1.918 billion and gross profit up 11.2% to £1.632 billion. On a constant currency basis, revenues were up 13.2% and gross profit up almost 15%.

Operating profit (excluding income from associates) rose by 17.5% to £229.1 million from £194.9 million and by almost 23% in constant currencies. Profit before interest and tax was up over 19% to £245.2 million from £205.5 million and up 25% in constant currencies.

The Group's tax rate on profits was 31.5%, a slight improvement on the previous year's 32%. Fully diluted earnings per share rose almost 20% to 18.8p from 15.7p restated to reflect the implementation of FRS 14. In constant currency, earnings per share rose 26%.

The Board recommends an increase of 20% in the final dividend to 1.72p per share, which will be paid in the form of an ordinary dividend, making a total of 2.56p per share for 1998, a 20% increase over 1997.

Operating margins

Reported operating margins (including income from associates) rose by 1% for the sixth year in a row to 12.8% and by 1.2% on a constant currency basis. The gap between the very best-performing competition and ourselves continues to narrow.

Operating margins before short and long-term incentive payments (totalling over £58 million in 1998) rose to 15.8% from 15.0%. Operating costs rose by 10.2% and by 13.8% in constant currency. The Group's staff cost to revenue ratio fell to 49.7% from 50.3%.

As the Group's staff costs to revenue ratio continues to improve, variable staff costs as a proportion of total staff costs have increased over recent years to 11.1% and as a proportion of revenues to almost 6%. This has resulted in increased flexibility in the cost structure.

The task of eliminating surplus property costs has been achieved over the last seven years. Over 650,000 sq ft with a cash cost of approximately £14 million per annum has been sublet or absorbed.

Like-for-like performance

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

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

As mentioned above, on a constant currency basis, revenues rose by over 13% and gross profit was up almost 15% on 1997. Total operating and direct costs were up almost 12% on the previous year. Staff costs rose by 8.5% and total salary costs by 8.3%.

On a constant currency basis, pre-tax profits were up over 26% as sterling strengthened on average by 6% against the dollar and most of

the Group's key trading currencies. If sterling had stayed at the same average levels as 1997 pre-tax profits would have been £219 million.

Headcount

Our staff numbers averaged 25,589 against 22,909 in 1997, up 11.7%. On a like-for-like basis, average headcount was up 635 to 25,589 from 24,954, an increase of 2.5%. At the end of 1998, staff numbers were 26,184 compared with 25,692 on a like-for-like basis at the end of 1997, an increase of 1.9%.

Manufacturing

The Group's manufacturing division had a better year with operating profits rising to £0.4 million from £0.3 million.

Parent company initiatives

Increasingly, WPP is concentrating on its mission of the 'management of the imagination', and ensuring it is a big company with the heart and mind of a small one.

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. Ten practice areas which span all our brands have been developed initially in media planning, buying and research, healthcare, privatisation, new technologies, new faster-growing markets, internal communications, retailing, entertainment and media, financial services, hi-tech and telecommunications.

Innovative graduate recruitment schemes, awards and training programmes have all continued to be implemented and developed in 1998. *In 1998 the parent company* continued a worldwide share ownership plan for all our people with over two years' service, a partnership programme rewarding outstanding examples of collaboration across operating companies with the objective of adding value to our clients' businesses, and training programmes on the new media and enhancing and stimulating creativity.

Acquisitions and start-ups

During 1998 the Group increased its equity interests in advertising agencies in Argentina, Belgium, Central America, Colombia, India, Italy, Japan, the Middle East, New Zealand, the Netherlands, Norway, the Philippines, Sweden and Turkey; in information and consultancy in Canada, Korea, Italy, South Africa, Spain, the UK and the US; in public relations and public affairs in the US; and in specialist communications in Argentina, Australia, Belgium, Brazil, France, Germany, Poland, Thailand, the UK and the US.

Functionally, the Group is well positioned in areas such as direct and database marketing and interactive communications, healthcare, hi-tech, retail and information and consultancy where growth is stronger relative to the industry as a whole. In line with this objective the Group has made acquisitions and investments in custom research, media research, direct marketing, data-mining and media buying. Together with corporate partners such as GE the Group has invested in two venture capital funds, Media Technology Ventures and Media Technology Equity Partners. These funds provide seed and second-round financing in a number of interactive areas including e-commerce, Web television and telephone, digital animation, on-line healthcare education and sports entertainment.

Treasury activities

Treasury activity is managed centrally, from the parent company's London and New York offices, and is principally concerned with the management of net working capital, external and internal funding requirements, and key market risks, *including interest rate and foreign* exchange rate movements.

The treasury operation is not a profit centre and its activities are carried out in accordance with policies approved by the Board of Directors and subject to regular review and audit.

The Group's interest rate management policy is to reduce the impact of an upward change in interest rates while maintaining some degree of flexibility to enjoy the benefits if interest rates fall. It seeks to do this by ensuring a significant proportion of its borrowings are at fixed or capped rates of interest, principally through the use of interest rate swaps, interest rate caps and forward rate contracts.

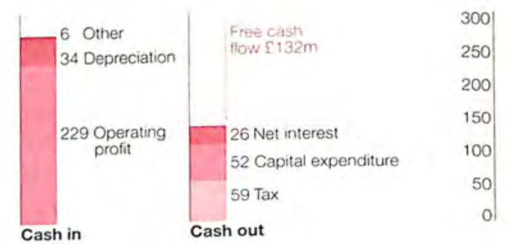
The Group manages liquidity risk by ensuring continuity and flexibility of funding even in difficult market conditions. Undrawn committed borrowing facilities are maintained in excess of average gross borrowing levels and debt maturities are closely monitored.

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.

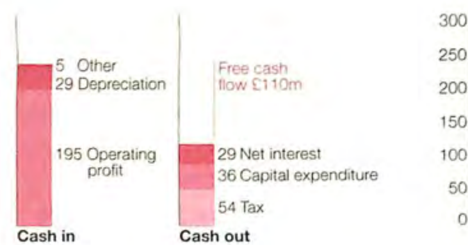
The Group's significant overseas operations give rise to an exposure to changes in foreign exchange rates. The Group seeks to mitigate the effect of these structural currency exposures by borrowing in the same currencies as the operating (or 'functional') currencies of its main operating units. The majority of the Group's debt is therefore denominated in US dollars, as this is the predominant currency of revenues.

Significant cross-border trading exposures are hedged by the use of forward foreign exchange contracts. No speculative foreign exchange trading is undertaken.

1998 cash flow £m



1997 cash flow £m



1996 cash flow £m

Cash flow

As at 31 December 1998, the Group was cash positive with net cash of £134 million compared with £195 million at 31 December 1997 (1997: £196 million on the basis of 1998 year-end exchange rates), despite cash expenditure of £115 million on acquisitions and £55 million on share repurchases. As usual, this was primarily due to the seasonally strong fourth quarter and management efforts to improve working capital.

Net debt averaged £143 million in 1998, up £28 million against £115 million in 1997 (1997: up £22 million against £121 million at 1998 exchange rates). These net debt figures compare with a current equity market capitalisation of approximately £4.0 billion, giving a total enterprise value of approximately £4.1 billion.

Cash flow continued to improve as a result of improved profitability and management of working capital. In 1998, operating profit was £229 million, capital expenditure £52 million, depreciation £34 million, tax paid £59 million, interest and similar charges paid £26 million and other net cash inflows of £6 million. Free cash flow available for debt repayment, acquisitions, share buy-backs and dividends was therefore £132 million. This free cash flow was more than absorbed by acquisition payments and investments of £115 million, share repurchases and cancellations of £55 million and dividends of £17 million.

In order to enhance share owner value as liquidity improves, your Board has continued to give consideration to the relative merits of increasing the dividend payout ratio and share buy-backs. As noted above, your Board has decided to increase the final dividend by 20% to 1.72p per share, taking the full-year dividend to 2.56p per share which is approximately seven times covered.

In addition, as current opportunities for acquisitions at sensible prices are limited, the Company increased the amount available for share buy-backs in the open market to £50 million, when market conditions were appropriate. Such annual share repurchases now represent 1-2% of the Company's share capital which seems to have a more significant impact in improving share owner value. If the UK stock market continues to value your company at a significant discount to its US-based competitors, your Board will continue to take advantage of this valuation discrepancy through the buy-back programme; if necessary by increasing net debt to the range of £150-£200 million in comparison with the historical target range of £100-£150 million. This level of debt would still represent only 3-5% of the Company's market value.

In the first three months of 1999, the period for which information is available prior to printing, net debt averaged £126 million versus £82 million for the same period last year (1998: £83 million at 1999 exchange rates).

Net balance sheet assets

No hedging is undertaken in relation to the accounting translation of overseas balance sheets. In 1998 this resulted in an increase of £4 million (1997: decrease of £40 million) in the sterling value of share owners' funds due to movements in exchange rates.

In 1998, net assets of £196 million compared with net liabilities of £18 million in 1997. This increase was largely due to the implementation of Financial Reporting Standard 10 – £158 million of goodwill arising on the acquisition of subsidiary undertakings was capitalised as an asset during 1998. Previously goodwill had been written off to reserves.

1999 outlook

As usual, our budgets for 1999 have been prepared on a conservative basis. They predict like-for-like, year-on-year revenue increases of more than 4% in comparison to 1998 and reflect the recessionary uncertainties in Asia Pacific and Latin America. This compares with budgeted growth of 6% in 1997 against an actual outcome of more than 8% and budgeted growth of 6% and actual growth of almost 8% in 1998. In the first three months of 1999 we are showing an almost 10% increase including 4% from last year's acquisitions. At current exchange rates, sterling has weakened against the Group's key trading currencies by approximately 1% on a weighted average basis when compared with the average for 1998.

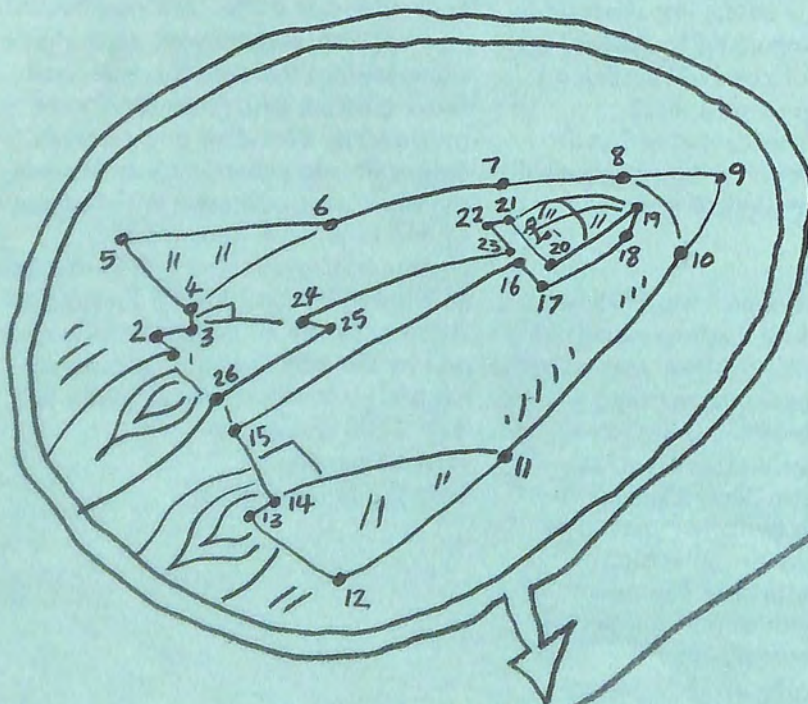
As a result of improved profitability and cash flow, it is not anticipated that a continuation of first quarter exchange rates will significantly affect the achievement of the Group's 1999 results.

In these circumstances there is no reason to believe that the Group cannot achieve the objective set in 1997 of further improving margins by another 0.6% in 1999. 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 14% by 2000. After all, the two best listed performers in the industry are at 15-16%, and that is where we would want to be. Neither is there any reason why operating margins could not be improved beyond this level by continued focus on revenue growth and careful husbandry of costs.

1999, WPP's fourteenth year, should be another good year despite recessionary concerns. Whilst growth will be dampened by recent economic events in Asia Pacific and Latin America, early indications are that the worldwide growth rate of communications services will be only slightly lower than 1998 at approximately 4-5%. This may be no bad thing as there were signs that some western mature economies and faster-growing eastern markets were overheating. Providing governments do not overdo deflationary correction, the worldwide economic environment should be good for growth in communications services. This should be boosted by the 2000 US Presidential election, by the 2000 Sydney Olympics and by the millennium celebrations themselves but perhaps tempered by Year 2000 concerns.

Paul Richardson
Group finance director

The numbers in full



Accounting policies

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. A summary of the Group's principal accounting policies, which have been applied consistently throughout the year and with the preceding year (except as disclosed in accounting policies 3 and 13), is set out below.

1 Basis of accounting and presentation of financial statements

The financial statements are prepared under the historical cost convention.

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 and intangible fixed assets

Intangible fixed assets comprise goodwill and certain acquired separable corporate brand names.

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. During the year the Group implemented FRS 10 (Goodwill and Intangible Assets) and FRS 11 (Impairment of Fixed Assets and Goodwill). For acquisitions made on or after 1 January 1998 goodwill is capitalised as an intangible asset. Goodwill arising on acquisitions in the year ended 31 December 1997 and earlier periods was written off to reserves in accordance with the accounting standard then in force. As permitted by FRS 10, the goodwill previously written off to reserves has not been reinstated in the balance sheet. On disposal or closure of a business, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

The directors are of the opinion that the goodwill and intangible assets of the Group have an infinite economic life because of the institutional nature of the corporate brand names, their proven ability to maintain market leadership and profitable operations over long periods of time and WPP's commitment to develop and enhance their value. The carrying value of intangible assets will continue to be reviewed annually for impairment and adjusted to the recoverable amount if required.

The financial statements depart from the specific requirement of companies legislation to amortise goodwill over a finite period in order to give a true and fair view. The directors consider this to be necessary for the reasons given above. Because of the infinite life of these intangible assets, it is not possible to quantify its impact.

The initial recognition of the J. Walter Thompson corporate brand was credited to the revaluation reserve. Following the implementation of FRS 10 this amount of £175.0 million has been transferred to the profit and loss account reserve. In addition a transfer of £1,280.9 million has been made from the goodwill write-off reserve to the profit and loss account reserve in accordance with FRS 10.

4 Tangible fixed assets

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

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

5 Investments

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

6 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.

7 Debtors

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

8 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.

9 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.

10 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.

11 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.

12 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.

13 Changes in accounting policies
Other than the introduction of FRS 10 (Goodwill and Intangible Assets) and FRS 11 (Impairment of Fixed Assets and Goodwill), as disclosed in accounting policy 3, a number of other Financial Reporting Standards were implemented during the year. The principal effect of these on the Group was as follows:

FRS 9 (Associates and Joint Ventures)
The impact of FRS 9 is to change the presentation of income from associates within the profit and loss account. This is now excluded from operating profit and shown as a separate line before profit on ordinary activities before interest and taxation.

FRS 14 (Earnings per Share)
The impact of FRS 14 is to change the method of calculation of basic and fully diluted earnings per share (EPS). The main impact of this is that certain shares held by the Employee Share Ownership Plan (ESOP) are now excluded from the weighted average number of shares.

Consolidated profit and loss account

For the year ended 31 December 1998

	Notes	**1998 £m**	1997 £m	1996 £m	**1998 $m**	1997 $m	1996 $m
Turnover (gross billings)	1	**8,000.1**	7,287.3	7,084.0	**13,259.4**	11,937.3	11,062.4
Cost of sales		**(6,081.7)**	(5,540.6)	(5,392.7)	**(10,079.8)**	(9,076.1)	(8,421.3)
Revenue	1	**1,918.4**	1,746.7	1,691.3	**3,179.6**	2,861.2	2,641.1
Direct costs		**(285.9)**	(278.0)	(254.8)	**(473.9)**	(455.4)	(397.9)
Gross profit		**1,632.5**	1,468.7	1,436.5	**2,705.7**	2,405.8	2,243.2
Operating costs	2	**(1,403.4)**	(1,273.8)	(1,266.4)	**(2,326.0)**	(2,086.6)	(1,977.6)
Operating profit		**229.1**	194.9	170.1	**379.7**	319.2	265.6
Income from associates		**16.1**	10.6	12.3	**26.7**	17.4	19.2
Profit on ordinary activities before interest and taxation	1	**245.2**	205.5	182.4	**406.4**	336.6	284.8
Net interest payable and similar charges	4	**(32.4)**	(28.1)	(29.1)	**(53.7)**	(46.0)	(45.4)
Profit on ordinary activities before taxation		**212.8**	177.4	153.3	**352.7**	290.6	239.4
Taxation on profit on ordinary activities	5	**(67.0)**	(56.7)	(50.6)	**(111.0)**	(92.9)	(79.0)
Profit on ordinary activities after taxation		**145.8**	120.7	102.7	**241.7**	197.7	160.4
Minority interests		**(5.5)**	(4.7)	(2.7)	**(9.1)**	(7.7)	(4.2)
Profit attributable to ordinary share owners		**140.3**	116.0	100.0	**232.6**	190.0	156.2
Ordinary dividends	6	**(19.6)**	(15.7)	(12.4)	**(32.5)**	(25.7)	(19.4)
Retained profit for the year		**120.7**	100.3	87.6	**200.1**	164.3	136.8
Earnings per share (net basis)	7						
Basic earnings per ordinary share		**19.1p**	15.8p	13.6p	**31.7¢**	25.9¢	21.2¢
Fully diluted earnings per ordinary share		**18.8p**	15.7p	13.5p	**31.2¢**	25.7¢	21.1¢
Ordinary dividend per share	6						
Interim dividend		**0.84p**	0.7p	0.556p	**1.39¢**	1.14¢	0.87¢
Final dividend		**1.72p**	1.43p	1.144p	**2.85¢**	2.35¢	1.79¢
Earnings per ADR (net basis)							
Basic earnings per ADR		**191.0p**	158.0p	136.0p	**$3.17**	$2.59	$2.12
Fully diluted earnings per ADR		**188.0p**	157.0p	135.0p	**$3.12**	$2.57	$2.11
Ordinary dividend per ADR (net)							
Interim		**8.4p**	**7.0p**	5.56p	**13.9¢**	11.4¢	8.7¢
Final		**17.2p**	**14.3p**	11.44p	**28.5¢**	23.5¢	17.9¢

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 54 and 56 are also expressed in US dollars using the approximate average rate for the year for the profit and loss account (1998: $1.6574= £1, 1997: $1.6381 = £1, 1996: $1.5616 = £1) and the rate in effect on 31 December for the balance sheet (1998: $1.6638 = £1, 1997: $1.6454 = £1, 1996: $1.7113 = £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 operations with a material impact on the Group's results were acquired or discontinued.
There is no material difference between the results disclosed in the profit and loss account and the historical cost profit as defined by Financial Reporting Standard 3.
Movements in share owners' funds are set out in note 23.
Comparative figures in the profit and loss account have been restated following implementation of FRS 9 'Associates and Joint Ventures' and FRS 14 'Earnings per Share' (see accounting policies on page 53).

Consolidated cash flow statement

For the year ended 31 December 1998

	Notes	1998 £m	1997 £m	1996 £m
Net cash inflow from operating activities	9	**256.0**	283.0	232.6
Dividends received from associates		**3.4**	2.8	5.1
Return on investments and servicing of finance	10	**(28.7)**	(30.5)	(28.2)
United Kingdom and overseas tax paid		**(59.0)**	(54.0)	(38.6)
Capital expenditure and financial investment	10	**(82.1)**	(45.8)	(41.0)
Acquisition payments	10	**(115.5)**	(68.5)	(10.8)
Equity dividends paid		**(16.6)**	(13.5)	(10.4)
Net cash (outflow)/inflow before financing		**(42.5)**	73.5	108.7
Net cash inflow/(outflow) from financing	10	**78.1**	(142.3)	(31.5)
Increase/(decrease) in cash and overdrafts for the year		**35.6**	(68.8)	77.2
Translation difference		**0.9**	(13.8)	(44.8)
Balance of cash and overdrafts at beginning of year		**292.0**	374.6	342.2
Balance of cash and overdrafts at end of year		**328.5**	292.0	374.6
Reconciliation of net cash flow to movement in net funds:				
Increase/(decrease) in cash and overdrafts for the year		**35.6**	(68.8)	77.2
Cash (inflow)/outflow from (increase)/decrease in debt financing		**(95.2)**	126.1	34.9
Other movements		**(0.9)**	(1.0)	1.2
Translation difference		**0.1**	(20.8)	(25.5)
Movement in net funds in the year		**(60.4)**	35.5	87.8
Net funds at beginning of year	8	**194.7**	159.2	71.4
Net funds at end of year	8	**134.3**	194.7	159.2

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

Consolidated statement of total recognised gains and losses

For the year ended 31 December 1998

	Notes	1998 £m	1997 £m	1996 £m
Profit for the financial year		**140.3**	116.0	100.0
Exchange adjustments on foreign currency net investments	23	**4.0**	(40.1)	22.3
Gain arising on expiry of subscription warrants	23	**–**	–	1.9
Total recognised gains and losses relating to the year		**144.3**	75.9	124.2

Consolidated balance sheet

As at 31 December 1998

	Notes	1998 £m	1997 £m	1996 £m	1998 $m	1997 $m	1996 $m
Fixed assets							
Intangible assets							
Corporate brands	12	**350.0**	350.0	350.0	**582.3**	575.9	599.0
Goodwill	12	**158.0**	–	–	**262.9**	–	–
Tangible assets	13	**166.7**	143.5	138.6	**277.4**	236.1	237.2
Investments	14	**268.2**	70.5	45.8	**446.2**	116.0	78.4
		942.9	564.0	534.4	**1,568.8**	928.0	914.6
Current assets							
Stocks and work in progress	15	**107.3**	99.7	94.1	**178.5**	164.0	161.0
Debtors	16	**893.1**	827.6	765.0	**1,485.9**	1,361.7	1,309.1
Debtors within working capital facility:	17						
Gross debts		**294.5**	335.2	264.1	**490.0**	551.5	452.0
Non-returnable proceeds		**(209.2)**	(211.7)	(175.0)	**(348.1)**	(348.3)	(299.5)
		85.3	123.5	89.1	**141.9**	203.2	152.5
Cash at bank and in hand		**423.9**	364.5	412.2	**705.3**	599.7	705.4
		1,509.6	1,415.3	1,360.4	**2,511.6**	2,328.6	2,328.0
Creditors: amounts falling due within one year	18	**(1,777.3)**	(1,701.6)	(1,508.0)	**(2,957.1)**	(2,799.8)	(2,580.6)
Net current liabilities		**(267.7)**	(286.3)	(147.6)	**(445.5)**	(471.2)	(252.6)
Total assets less current liabilities		**675.2**	277.7	386.8	**1,123.3**	456.8	662.0
Creditors: amounts falling due after more than one year	19	**(401.5)**	(221.5)	(281.7)	**(668.0)**	(364.5)	(482.1)
Provisions for liabilities and charges	20	**(77.9)**	(74.5)	(78.2)	**(129.6)**	(122.6)	(133.8)
Net assets/(liabilities)		**195.8**	(18.3)	26.9	**325.7**	(30.3)	46.1
Capital and reserves							
Called up share capital	22,23	**76.6**	73.6	74.1	**127.4**	121.1	126.8
Share premium account	23	**562.9**	421.6	416.5	**936.5**	693.7	712.8
Goodwill write-off reserve	23	**–**	(1,160.4)	(1,068.8)	**–**	(1,909.3)	(1,829.0)
Other reserves	23	**28.5**	78.4	117.8	**47.4**	129.0	201.6
Profit and loss account	23	**(480.3)**	561.6	482.7	**(799.1)**	924.0	826.0
Equity share owners' funds		**187.7**	(25.2)	22.3	**312.2**	(41.5)	38.2
Minority interests		**8.1**	6.9	4.6	**13.5**	11.2	7.9
Total capital employed		**195.8**	(18.3)	26.9	**325.7**	(30.3)	46.1

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

Signed on behalf of the Board on 6 May 1999:

M S Sorrell
Group chief executive

P W G Richardson
Group finance director

Notes to the consolidated profit and loss account

1 Segment information

The Group is the leading worldwide communications services organisation offering national and multinational clients a comprehensive range of communications services. These services include advertising, media planning, buying and research, information and consultancy, public relations and public affairs, and specialist communications. The Group derives a substantial proportion of its revenue and operating income from North America, the United Kingdom and Continental Europe and the Group's performance has historically been linked with the economic performance of these regions.

Contributions by geographical area were as follows:

	1998 £m	Change %	1997 £m	Change %	1996 £m
Turnover					
United Kingdom	**902.1**	11.5	809.0	5.0	770.4
United States	**3,534.9**	11.9	3,159.7	3.8	3,043.9
Continental Europe	**1,841.2**	19.6	1,539.0	(3.5)	1,595.6
Canada, Asia Pacific, Latin America, Africa & Middle East	**1,721.9**	(3.2)	1,779.6	6.3	1,674.1
	8,000.1	9.8	7,287.3	2.9	7,084.0
Revenue					
United Kingdom	**393.5**	17.8	334.0	5.3	317.3
United States	**764.4**	9.1	700.8	5.0	667.2
Continental Europe	**396.0**	17.8	336.2	(4.7)	352.6
Canada, Asia Pacific, Latin America, Africa & Middle East	**364.5**	(3.0)	375.7	6.1	354.2
	1,918.4	9.8	1,746.7	3.3	1,691.3
PBIT[1]					
United Kingdom	**42.2**	27.9	33.0	17.9	28.0
United States	**111.6**	26.2	88.4	17.6	75.2
Continental Europe	**55.0**	37.2	40.1	3.4	38.8
Canada, Asia Pacific, Latin America, Africa & Middle East	**36.4**	(17.3)	44.0	8.9	40.4
	245.2	19.3	205.5	12.7	182.4

There is no significant cross-border trading.

Contributions by operating sector were as follows:

	1998 £m	Change %	1997 £m	Change %	1996 £m
Turnover					
Advertising, media planning, buying & research	**6,582.5**	7.6	6,115.8	1.5	6,023.6
Information & consultancy	**391.9**	31.6	297.7	9.0	273.0
Public relations & public affairs	**164.7**	44.0	114.4	7.4	106.5
Specialist communications	**861.0**	13.4	759.4	11.5	680.9
	8,000.1	9.8	7,287.3	2.9	7,084.0
Revenue					
Advertising, media planning, buying & research	**951.3**	4.1	914.1	(0.8)	921.2
Information & consultancy	**367.2**	23.3	297.7	9.0	273.0
Public relations & public affairs	**134.8**	17.8	114.4	7.4	106.5
Specialist communications	**465.1**	10.6	420.5	7.7	390.6
	1,918.4	9.8	1,746.7	3.3	1,691.3
PBIT[1]					
Advertising, media planning, buying & research	**141.3**	7.1	131.9	5.9	124.5
Information & consultancy	**39.3**	51.7	25.9	17.7	22.0
Public relations & public affairs	**15.7**	70.7	9.2	148.6	3.7
Specialist communications	**48.9**	27.0	38.5	19.6	32.2
	245.2	19.3	205.5	12.7	182.4

[1]PBIT: Profit on ordinary activities before interest and taxation.

2 Operating costs

	1998 £m	1997 £m	1996 £m
Total staff costs (note 3)	**952.9**	877.8	869.7
Establishment costs	**142.4**	133.9	137.0
Other operating expenses (net)	**307.2**	262.0	259.3
Loss on sale of tangible fixed assets	**0.9**	0.1	0.4
	1,403.4	1,273.8	1,266.4
Operating expenses include:			
Depreciation	**33.7**	29.1	28.4
Operating lease rentals:			
Property (excluding real estate taxes)	**72.5**	71.9	75.8
Plant and machinery	**16.4**	15.0	16.8
	88.9	86.9	92.6
Auditors' remuneration:			
Audit fees			
– Arthur Andersen	**2.0**	1.8	1.8
– other	**0.3**	0.2	0.3
	2.3	2.0	2.1
Fees in respect of other advisory work	**2.8**	2.4	2.0

Minimum committed annual rentals

Amounts payable (net of taxes) in 1999 under the foregoing leases will be as follows:

	Plant and machinery			Property		
	1999 £m	1998 £m	1997 £m	1999 £m	1998 £m	1997 £m
In respect of operating leases which expire:						
– within one year	**5.1**	3.9	4.7	**7.0**	6.5	7.9
– within two to five years	**13.2**	10.9	9.1	**20.4**	15.0	15.6
– after five years	**0.2**	0.6	0.3	**49.2**	49.8	45.7
	18.5	15.4	14.1	**76.6**	71.3	69.2

Future minimum annual amounts payable (net of taxes) under lease commitments in existence at 31 December 1998 are as follows:

	Minimum rental payments £m	Less sub-let rentals £m	Net payment £m
Year ended 31 December			
1999	95.1	(6.1)	89.0
2000	92.0	(5.3)	86.7
2001	85.2	(5.0)	80.2
2002	73.0	(4.6)	68.4
2003	69.5	(4.5)	65.0
Later years (to 2010)	331.4	(15.7)	315.7
	746.2	(41.2)	705.0

Notes to the consolidated profit and loss account continued

3 Our people

Our staff numbers averaged 25,589 against 22,909 in 1997, up 11.7%, including acquisitions. Their geographical distribution was as follows:

	1998 Number	1997 Number	1996 Number
United Kingdom	**3,973**	3,625	3,673
United States	**7,082**	6,571	6,387
Continental Europe	**4,922**	4,291	4,004
Asia Pacific, Latin America, Africa & Middle East	**9,612**	8,422	7,102
	25,589	22,909	21,166

At the end of 1998 staff numbers were 26,184 compared with 25,692 on a like-for-like basis at the end of 1997, an increase of 1.9%.

Total staff costs were made up as follows:

	1998 £m	1997 £m	1996 £m
Wages and salaries	**666.4**	615.4	613.8
Payments and provisions charged under short- and long-term incentive plans	**58.6**	56.8	61.9
Social security costs	**76.7**	70.4	70.4
Other pension costs	**20.7**	20.2	22.9
Other staff costs	**130.5**	115.0	100.7
	952.9	877.8	869.7
Staff cost to revenue ratio	**49.7%**	50.3%	51.4%

Directors' emoluments are disclosed on page 80.

4 Net interest payable and similar charges

	1998 £m	1997 £m	1996 £m
On bank loans and overdrafts, and other loans			
– repayable within five years, by instalments	**2.0**	1.2	21.5
– repayable within five years, not by instalments	**21.1**	23.8	8.0
– on all other loans (including corporate bond)	**6.9**	1.4	0.2
Interest payable	**30.0**	26.4	29.7
Interest receivable	**(10.8)**	(10.3)	(11.5)
Net interest payable	**19.2**	16.1	18.2
Charges in respect of working capital facilities	**13.2**	12.0	10.9
	32.4	28.1	29.1

Net interest payable increased to £19.2 million from £16.1 million, reflecting the increased level of acquisitions and share repurchases during the year.

The majority of the Group's debt is represented by $300 million of USA bonds at a weighted average interest rate of 6.71%. Average borrowings under the $500 million Syndicated Revolving Credit Facility amounted to $318 million at an average interest rate of 5.7% (1997: 6.2%, 1996: 6.9%) inclusive of margin.

Derivative financial instruments

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

Swaps	1998	1997	1996
Notional principal amount	**$350m**	$350m	$300m
Average pay rate	**5.84%**	5.84%	5.79%
Average receive rate	**LIBOR**	LIBOR	LIBOR
Average term	**6 mnthly**	6 mnthly	6 mnthly
Latest maturity date	**Jan 2003**	Jan 2003	Jan 2001

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 relevant 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.

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

5 Tax on profit on ordinary activities

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

	1998 £m	1997 £m	1996 £m
Corporation tax at 31% (1997: 31.5%, 1996: 33%)	**12.9**	6.1	4.2
Deferred taxation	**–**	(2.6)	–
Overseas taxation	**51.4**	52.0	40.2
Tax on profits of associate companies	**6.8**	3.9	5.4
Write-back of previously written-off ACT	**(4.1)**	(2.7)	–
Advance corporation tax written off	**–**	–	0.8
	67.0	56.7	50.6
Effective tax rate on profit before tax	**31.5%**	32%	33%

Reconciliation of the Group's tax to the United Kingdom statutory tax rate:

	1998 £m	1997 £m	1996 £m
Tax on pre-tax income at statutory rates of 31% (1997 31.5% and 1996 33%)	**66.0**	55.9	50.6
Effects of:			
Permanent differences between expenditures charged in arriving at income and expenditures allowed for tax purposes	**4.3**	2.6	3.7
Utilisation of tax losses brought forward	**(5.6)**	(4.1)	(7.3)
Unused tax losses carried forward	**4.6**	3.8	2.6
Differences between UK and overseas statutory standard tax rates	**1.8**	1.2	0.2
Write-back of previously written-off ACT	**(4.1)**	(2.7)	–
Advance corporation tax written off	**–**	–	0.8
Tax on profit on ordinary activities	**67.0**	56.7	50.6

6 Ordinary dividends

	1998	1997	1996	1998	1997	1996
		Pence per share		£m	£m	£m
Interim dividend paid	**0.84p**	0.70p	0.556p	**6.2**	5.2	4.1
Final dividend proposed	**1.72p**	1.43p	1.144p	**13.4**	10.5	8.3
	2.56p	2.13p	1.700p	**19.6**	15.7	12.4

Other than the 1998 final dividend, all the above dividends are shown net of advance corporation tax (ACT). No ACT is payable in respect of the 1998 final dividend owing to the abolition of ACT with effect from April 1999. The 1998 interim dividend was paid in the form of a foreign income dividend.

7 Earnings per ordinary share

Basic and fully diluted earnings per share have been calculated in accordance with FRS 14 'Earnings per Share', and the prior year comparatives have been restated accordingly.

Basic earnings per share have been calculated using earnings of £140.3 million (1997: £116.0 million, 1996: £100.0 million) and weighted average shares in issue during the year of 735,700,122 shares (1997: 732,426,990 shares, 1996: 735,477,385 shares).

Fully diluted earnings per share have been calculated on a weighted average of 746,939,733 shares (1997: 738,922,627 shares, 1996: 739,657,370 shares). This takes into account the exercise of employee share options where these are expected to dilute earnings.

Basic and fully diluted earnings per ADR have been calculated using the same method as for earnings per share, multiplied by a factor of 10.

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.

	1998 Shares £m	1998 Debt £m	1997 Shares £m	1997 Debt £m	1996 Shares £m	1996 Debt £m
Analysis of changes in financing						
Beginning of year	**495.2**	**97.3**	490.6	215.4	482.7	270.8
Shares issued in respect of acquisitions	**132.7**	**–**	–	–	–	–
Other issues of share capital	**12.2**	**–**	5.3	–	7.9	–
Share buy-back	**(0.6)**	**–**	(0.7)	–	–	–
Repayment of bank loans	**–**	**–**	–	(18.5)	–	(40.5)
Increase/(reduction) in drawings on bank loans	**–**	**97.3**	–	(106.4)	–	4.4
(Payment)/amortisation of financing costs included in net debt	**–**	**(1.2)**	–	(0.2)	–	1.2
Exchange adjustments on long-term borrowings	**–**	**0.8**	–	7.0	–	(20.5)
End of year	**639.5**	**194.2**	495.2	97.3	490.6	215.4

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

Shares
At 31 December 1998, the Company's share base was entirely composed of ordinary equity share capital and share premium of £639.5 million (1997: £495.2 million, 1996: £490.6 million), further details of which are disclosed in notes 22 and 23.

Debt
USA bond issue During the year, the Group completed its debut US$300 million USA bond offering. The Group issued US$200 million of 6.625% Notes due 2005 and US$100 million of 6.875% Notes due 2008. Net proceeds of the offering were used to reduce drawings on existing loan facilities.

Revolving Credit Facility The Group's debt is also funded by a $500 million syndicated Revolving Credit Facility dated July 1998. The facility is due to expire in July 2002. The Group's syndicated borrowings drawn down under the agreement averaged $318 million during the year.

Interest on the majority of the Group's borrowings, other than the USA bond, is payable at a margin of between 0.20% and 0.55% over relevant LIBOR depending on certain covenant conditions being met and, for a significant proportion of borrowings, is hedged to January 2003 at US dollar LIBOR rates of 6.25% or less (excluding margin costs).

Borrowings under the Revolving Credit Facility are governed by certain financial covenants based on the results and financial position of the Group.

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

	1998 £m	Change in year £m	1997 £m	Change in year £m	1996 £m
Debt					
Within one year	**–**	9.3	(9.3)	38.8	(48.1)
Between one and two years	**–**	–	–	43.8	(43.8)
Between two and five years	**(15.1)**	71.9	(87.0)	35.6	(122.6)
Over five years – by instalments	**(179.1)**	(178.1)	(1.0)	(0.1)	(0.9)
Debt financing under the Credit Facility Agreement and from unsecured loan notes	**(194.2)**	(96.9)	(97.3)	118.1	(215.4)
Short-term overdrafts – within one year	**(95.4)**	(22.9)	(72.5)	(34.9)	(37.6)
Cash at bank and in hand	**423.9**	59.4	364.5	(47.7)	412.2
Net funds	**134.3**	(60.4)	194.7	35.5	159.2

9 Reconciliation of operating profit to net cash inflow from operating activities	1998 £m	1997 £m	1996 £m
Operating profit	**229.1**	194.9	170.1
Depreciation charge (note 13)	**33.7**	29.1	28.4
(Increase)/decrease in working capital and provisions	**(7.7)**	58.9	33.7
Loss on sale of tangible fixed assets	**0.9**	0.1	0.4
Net cash inflow from operating activities	**256.0**	283.0	232.6

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

	1998 £m	1997 £m	1996 £m
Changes in working capital and provisions			
Decrease/(increase) in stocks and work in progress	**0.2**	(2.5)	(8.6)
Decrease/(increase) in debtors	**23.9**	(66.3)	(12.8)
(Decrease)/increase in creditors – short term	**(29.2)**	120.0	53.6
– long term	**(7.9)**	6.9	15.4
Increase/(decrease) in provisions	**5.3**	0.8	(13.9)
Decrease in working capital and provisions	**(7.7)**	58.9	33.7

10 Analysis of non-operating cash flows
The following tables analyse the items included within the main cash flow headings on page 55:

	1998 £m	1997 £m	1996 £m
Returns on investments and servicing of finance			
Interest and similar charges paid	**(36.8)**	(39.9)	(39.1)
Interest received	**10.6**	10.6	11.7
Dividends paid to minorities	**(2.5)**	(1.2)	(0.8)
Net cash outflow	**(28.7)**	(30.5)	(28.2)
Capital expenditure and financial investment			
Purchase of tangible fixed assets (note 13)	**(51.6)**	(36.3)	(35.7)
Purchase of own shares by ESOP trust (note 14)	**(33.3)**	(12.7)	(6.9)
Proceeds from sale of tangible fixed assets	**2.8**	3.2	1.6
Net cash outflow	**(82.1)**	(45.8)	(41.0)
Acquisition payments			
Acquisition payments	**(105.7)**	(51.2)	(8.6)
Net purchase of other investments	**(9.8)**	(17.3)	(2.2)
	(115.5)	(68.5)	(10.8)
Financing activities			
Net repayment of bank loans	**–**	(18.5)	(40.5)
(Reduction)/increase in drawings on bank loans	**(81.4)**	(106.4)	4.4
Share buy-backs	**(21.3)**	(18.5)	–
Financing costs	**(2.3)**	(1.3)	1.2
Proceeds from issue of shares	**4.3**	2.4	3.4
Proceeds from issue of bond	**178.8**	–	–
Net cash inflow/(outflow)	**78.1**	(142.3)	(31.5)

Notes to the consolidated balance sheet

11 Segment information
Assets by geographical area were as follows:

	Total assets employed			Non-interest bearing assets/(liabilities)		
	1998 £m	1997 £m	1996 £m	**1998 £m**	1997 £m	1996 £m
United Kingdom	**436.9**	356.0	349.5	**54.0**	31.2	26.7
United States	**623.4**	515.8	497.9	**(359.9)**	(420.5)	(260.9)
Continental Europe	**621.2**	489.0	508.5	**95.6**	61.9	22.1
Canada, Asia Pacific, Latin America, Africa & Middle East	**771.0**	618.5	538.9	**271.8**	114.4	79.8
	2,452.5	1,979.3	1,894.8	**61.5**	(213.0)	(132.3)
Net interest bearing funds				**134.3**	194.7	159.2
Net assets/(liabilities) in the consolidated balance sheet				**195.8**	(18.3)	26.9

Assets by operating sector were as follows:

	Total assets employed			Non-interest bearing assets/(liabilities)		
	1998 £m	1997 £m	1996 £m	**1998 £m**	1997 £m	1996 £m
Advertising, media planning, buying & research	**1,616.0**	1,461.7	1,424.4	**(139.2)**	(212.2)	(123.7)
Information & consultancy	**294.8**	157.7	133.8	**71.8**	(11.3)	(0.9)
Public relations & public affairs	**167.8**	81.4	101.3	**68.3**	11.7	4.0
Specialist communications	**373.9**	278.5	235.3	**60.6**	(1.2)	(11.7)
	2,452.5	1,979.3	1,894.8	**61.5**	(213.0)	(132.3)
Net interest bearing funds				**134.3**	194.7	159.2
Net assets/(liabilities) in the consolidated balance sheet				**195.8**	(18.3)	26.9

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

	1998 £m	1997 £m	1996 £m
Corporate brand names	**350.0**	350.0	350.0

Corporate brand names represent J. Walter Thompson, Hill and Knowlton and Ogilvy & Mather Worldwide. These assets are carried at historical cost in accordance with the Group's accounting policy for intangible fixed assets as stated on page 52.

Goodwill

	£m
1 January 1997 and 1 January 1998	–
Goodwill arising on acquisition of subsidiary undertakings	158.0
31 December 1998	**158.0**

The Group's accounting policy for goodwill changed with effect from 1 January 1998 to accord with the introduction of FRS 10. Further details are given on page 52.

13 Tangible fixed assets
The movements in 1998 and 1997 were as follows:

	Land and buildings					
Cost:	Freehold £m	Short leasehold £m	Fixtures, fittings and equipment £m	Computer equipment £m	Total £m
1 January 1997	12.3	104.3	80.1	89.9	286.6
Additions	0.8	7.9	8.1	19.5	36.3
New acquisitions	1.5	1.0	0.9	3.5	6.9
Disposals	(2.3)	(1.3)	(5.5)	(3.1)	(12.2)
Exchange adjustments	(0.3)	1.2	(1.1)	(1.9)	(2.1)
31 December 1997	12.0	113.1	82.5	107.9	315.5
Additions	0.1	13.3	13.4	24.8	51.6
New acquisitions	0.1	2.4	5.5	4.3	12.3
Disposals	(0.6)	(2.6)	(2.6)	(6.3)	(12.1)
Exchange adjustments	–	(1.3)	(0.5)	0.9	(0.9)
31 December 1998	**11.6**	**124.9**	**98.3**	**131.6**	**366.4**
Depreciation:					
1 January 1997	2.4	38.6	46.2	60.8	148.0
New acquisitions	0.4	0.8	0.7	2.2	4.1
Charge	0.6	5.5	9.8	13.2	29.1
Disposals	(0.6)	(1.0)	(4.6)	(2.7)	(8.9)
Exchange adjustments	(0.4)	1.9	(0.5)	(1.3)	(0.3)
31 December 1997	2.4	45.8	51.6	72.2	172.0
New acquisitions	–	1.7	0.5	0.4	2.6
Charge	0.7	5.1	11.4	16.5	33.7
Disposals	–	(1.5)	(1.6)	(5.3)	(8.4)
Exchange adjustments	(0.3)	(0.2)	–	0.3	(0.2)
31 December 1998	**2.8**	**50.9**	**61.9**	**84.1**	**199.7**
Net book value:					
31 December 1998	**8.8**	**74.0**	**36.4**	**47.5**	**166.7**
31 December 1997	9.6	67.3	30.9	35.7	143.5
1 January 1997	9.9	65.7	33.9	29.1	138.6

Leased assets (other than leasehold property) included above have a net book value of £2.3 million (1997: £1.8 million, 1996: £1.5 million).

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

	1998 £m	1997 £m	1996 £m
Capital commitments	0.6	2.2	0.3

Notes to the consolidated balance sheet continued

14 Fixed asset investments

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

	Associate undertakings £m	Goodwill on associate undertakings £m	Own shares £m	Other investments £m	Total £m
1 January 1997	25.0	–	17.3	3.5	45.8
Additions	24.6	–	12.7	17.3	54.6
Goodwill arising on acquisition of new associates	(22.6)	–	–	–	(22.6)
Associates now consolidated	(7.4)	–	–	–	(7.4)
Share of profits after tax of associate undertakings	6.7	–	–	–	6.7
Dividends and other receipts	(2.8)	–	–	–	(2.8)
Exchange adjustments	(0.8)	–	–	–	(0.8)
Disposals	–	–	(3.0)	–	(3.0)
31 December 1997	22.7	–	27.0	20.8	70.5
Additions	52.4	–	33.3	13.7	99.4
Goodwill arising on acquisition of new associates	–	90.6	–	–	90.6
Share of profits after tax of associate undertakings	9.3	–	–	–	9.3
Dividends and other movements	(8.0)	–	–	2.5	(5.5)
Exchange adjustments	10.0	–	–	–	10.0
Disposals	–	–	(2.2)	(3.9)	(6.1)
31 December 1998	**86.4**	**90.6**	**58.1**	**33.1**	**268.2**

In accordance with FRS 10 (Goodwill and Intangible Assets), goodwill arising on the acquisition of associates since 1 January 1998 has been capitalised within investments. Prior to that date, such goodwill was written off against reserves.

The Group's principal associate undertakings include:

	% controlled	Country of incorporation
Asatsu-DK	20.0	Japan
John Singleton Advertising (Aust) Pty Limited	40.7	Australia
Batey Ads (Pte) Limited	30.0	Singapore
Chime Communications plc	29.9	United Kingdom
IBOPE Group	31.0	Brazil
Ogilvy & Mather Rightford Pty Limited	40.0	South Africa
Mediacenter BV	50.0	Netherlands

The Company's holdings of own shares are stated at cost and represent purchases by the Employee Share Option Plan ('ESOP') trust of shares in WPP Group plc for the purpose of funding certain of the Group's long-term incentive plan liabilities, details of which are disclosed in the Compensation committee report on pages 86 to 91.

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

The number and market value of the ordinary shares of the Company held by the ESOP at 31 December 1998 was 25,532,484 (1997: 16,456,119, 1996: 13,748,628) and £93.4 million (1997: £44.3 million, 1996: £34.9 million) respectively.

The market value of the Group's shares in its principal listed associate undertakings at 31 December 1998 was as follows: Asatu-DK – £144.5 million, Chime Communications plc – £17.5 million. The Group's investments in its principal associate undertakings are represented by ordinary shares.

Other investments include a UK listed investment of £19.9 million (1997: £14.3 million, 1996: nil). This represents an interest of 17.9% (1997: 13.7%) in the ordinary share capital of Tempus Group plc (formerly CIA Group plc), Europe's second-largest independent media buyer.

15 Stocks and work in progress

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

	1998 £m	1997 £m	1996 £m
Work in progress	**104.5**	97.0	90.8
Stocks	**2.8**	2.7	3.3
	107.3	99.7	94.1

16 Debtors

The following are included in debtors:

	1998 £m	1997 £m	1996 £m
Amounts falling due within one year			
Trade debtors outside working capital facility	**678.9**	633.9	601.1
VAT and sales taxes recoverable	**4.0**	7.2	11.9
Corporate income taxes recoverable	**9.9**	6.5	12.6
Other debtors	**126.5**	103.3	84.7
Prepayments and accrued income	**46.8**	53.5	43.0
	866.1	804.4	753.3
Amounts falling due after more than one year			
Other debtors	**20.5**	18.9	8.3
Prepayments and accrued income	**6.5**	4.3	3.4
	27.0	23.2	11.7
	893.1	827.6	765.0

Movements on bad debt provisions were as follows:

	1998 £m	1997 £m	1996 £m
Balance at beginning of year	**15.6**	14.7	17.3
Charged/(credited):			
To costs and expenses	**4.6**	6.6	5.1
Exchange adjustments	**(0.4)**	(0.5)	(1.8)
Other	**(3.3)**	(5.2)	(5.9)
Balance at end of year	**16.5**	15.6	14.7

The allowance for doubtful debts is equivalent to 2.1% (1997: 2.0%, 1996: 2.1%) of gross trade accounts receivable.

17 Debtors within working capital facility

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

	1998 £m	1997 £m	1996 £m
Gross debts	**294.5**	335.2	264.1
Non-returnable proceeds	**(209.2)**	(211.7)	(175.0)
	85.3	123.5	89.1

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

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

Notes to the consolidated balance sheet continued

18 Creditors: amounts falling due within one year

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

	1998 £m	1997 £m	1996 £m
Bank loans and overdrafts (note 8)	**95.4**	81.8	85.7
Trade creditors	**1,102.4**	1,113.0	952.8
Corporate income taxes payable	**50.0**	49.2	38.8
Other taxation and social security	**52.0**	58.5	57.7
Dividends proposed	**13.4**	10.5	8.3
Payments due to vendors (note 24)	**14.3**	9.1	3.0
Other creditors and accruals	**338.7**	282.2	260.6
Deferred income	**111.1**	97.3	101.1
	1,777.3	1,701.6	1,508.0

Bank loans and overdrafts include overdrafts of £95.4 million (1997: £72.5 million, 1996: £37.6 million).

19 Creditors: amounts falling due after more than one year

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

	1998 £m	1997 £m	1996 £m
Bank loans (note 8)	**194.2**	88.0	167.3
Corporate income taxes payable	**91.3**	75.3	65.3
Payments due to vendors (note 24)	**83.6**	25.3	10.5
Other creditors and accruals	**32.4**	32.9	38.6
	401.5	221.5	281.7

20 Provisions for liabilities and charges, and contingent liabilities

The movement in the year on provisions comprises:

	Deferred taxation £m	Pension and other £m	Long-term incentive plans £m	Total £m
1 January 1997	9.9	45.7	22.6	78.2
(Credited)/charged to the profit and loss account	(2.6)	3.6	13.4	14.4
New acquisitions	–	1.2	–	1.2
Utilised	–	(3.4)	(14.1)	(17.5)
Transfers	–	(2.1)	–	(2.1)
Exchange adjustments	1.1	(1.7)	0.9	0.3
31 December 1997	8.4	43.3	22.8	74.5
Charged to the profit and loss account	0.4	5.8	11.2	17.4
New acquisitions	–	0.2	–	0.2
Utilised	(0.9)	(4.0)	(12.2)	(17.1)
Transfers	0.7	1.3	–	2.0
Exchange adjustments	0.1	0.8	–	0.9
31 December 1998	**8.7**	**47.4**	**21.8**	**77.9**

20 Provisions for liabilities and charges, and contingent liabilities continued

Deferred taxation

Deferred tax has been provided to the extent that the directors have concluded that it is probable that liabilities will crystallise. No provision is made for tax that would arise on the remittance of overseas earnings. There is no material unprovided deferred tax at 31 December 1998.

	1998 £m	1997 £m	1996 £m
Deferred tax assets:			
– Unutilised tax losses	**13.3**	24.6	26.8
– Deferred compensation	**29.0**	28.4	27.1
– Acquisition related provisions (principally property working capital and staff-related liabilities)	**8.8**	9.0	9.9
– Advance corporation tax written off	**–**	4.1	6.8
– Other	**7.6**	5.3	5.0
– External interest payable not paid	**–**	–	2.4
	58.7	71.4	78.0
Less:			
– Provision against deferred tax assets	**36.1**	55.5	66.4
Deferred tax liabilities:			
– Accelerated capital allowances	**5.6**	5.5	6.7
– Interest receivable	**16.1**	10.9	12.7
– Other	**9.6**	7.9	2.1
Temporary timing differences	**31.3**	24.3	21.5
	8.7	8.4	9.9

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 £19.4 million (1997: £10.9 million, 1996: £11.5 million).

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

Pension provisions and pension arrangements

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

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

The Group's pension costs are analysed as follows:

	1998 £m	1997 £m	1996 £m
Defined contribution schemes	**14.7**	13.2	15.4
Defined benefit schemes	**5.9**	7.0	7.5
	20.6	20.2	22.9

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:

	1998 per annum	1997 per annum	1996 per annum
Assumptions			
Return on plan assets	**9%**	9%	9%
Salary increases	**3–8%**	5–8%	5–8%
Pension increases	**3–6%**	3–6%	3–6%
Assessments			
Market value of plan assets at year end	**£129m**	£128m	£121m
Value of assets to benefits ratio	**102%**	100%	103%

20 Provisions for liabilities and charges, and contingent liabilities continued

Other provisions

Long-term incentive plans are operated by certain of the Group's subsidiaries, the provision representing accrued compensation to 31 December 1998 that may become payable after more than one year, as described in the Compensation committee report on pages 86 to 91.

Contingent liabilities

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

21 Fair value of financial instruments

Derivative financial instruments

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

	31 March 1999	31 December 1998	31 December 1997
	Swaps £m	Swaps £m	Swaps £m
Fair value	**(4.2)**	(6.9)	(0.6)
Book value	**nil**	nil	nil

Non-derivative financial instruments

The Group estimates that the aggregate fair value of non-derivative financial instruments at 31 December 1998 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 1998.

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. Considerable judgement is required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that could be realised in a current market exchange.

22 Authorised and issued share capital

	1998 Number m	**1998 £m**	1997 Number m	1997 £m	1996 Number m	1996 £m
Authorised:						
Equity ordinary shares of 10p each	**1,250**	**125.0**	1,000	100.0	1,000	100.0
Issued:						
Equity ordinary shares of 10p each	**766.5**	**76.6**	736.3	73.6	741.4	74.1

Movements in each year are shown in note 23.

22 Authorised and issued share capital continued

Share options

As at 31 December 1998, unexercised options totalling 33,231,180 have been granted under the WPP Executive Share Option Scheme as follows:

Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
104,979	5.490	1994 – 1999
105,542	6.200	1994 – 1999
36,938	5.430	1995 – 2000
73,606	3.970	1995 – 2000
128,816	1.330	1996 – 2001
254,000	0.560	1997 – 2002
556,871	0.295	1995 – 2002
500,000	0.525	1996 – 2003
570,635	1.020	1996 – 2003
129,355	1.150	1997 – 2004
3,431,532	1.190	1997 – 2004
1,819,549	1.080	1998 – 2005
6,264,184	1.540	1998 – 2005
68,967	1.580	2000 – 2005
2,068,186	2.140	1999 – 2006
6,289,352	2.335	1999 – 2006
37,014	2.535	2000 – 2007
5,335,984	2.835	2000 – 2007
16,654	2.780	2000 – 2007
25,110	3.030	2001 – 2008
5,359,156	2.930	2001 – 2008
54,750	3.270	2001 – 2008

As at 31 December 1998, unexercised options totalling 4,454,550 have been granted under the WPP Worldwide Share Ownership Programme as follows:

Number of ordinary shares under option	Exercise price per share (£)	Exercise dates
1,955,925	2.695	2000 – 2007
2,498,625	3.030	2001 – 2008

A further grant was made on 1 April 1999 of 1,839,075 options at £5.315 exercisable between 2002 and 2009.

The aggregate status of the WPP Share Option Schemes during 1998 was as follows:

Movement on options granted

1 January 1998 Number	Granted Number	Exercised Number	Lapsed Number	31 December 1998 Number
37,228,757	8,308,216	4,597,580	3,253,663	37,685,730

Options outstanding

Range of exercise prices £	Weighted average exercise price £	Weighted average contractual life Months
0.295-6.200	2.086	83

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

	1998	1997	1996
Fair value	**71.5p**	64.5p	64.1p
Weighted average assumptions:			
Risk-free interest rate	**5.84%**	6.15%	6.51%
Expected life (months)	**36**	36	36
Expected volatility	**25%**	24%	32%
Dividend yield	**0.6%**	0.9%	0.9%

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

23 Share owners' funds
Movements during the year were as follows:

	Ordinary share capital £m	Share premium account £m	Goodwill write-off reserve £m	Other reserves £m	Profit and loss account £m	Total £m
Balance at 1 January 1996	**73.7**	**409.0**	**(1,040.2)**	**97.4**	**397.7**	**(62.4)**
1996 movements						
Ordinary shares issued	0.4	7.5	–	–	(4.5)	3.4
Write-off of goodwill arising on consolidation in the year	–	–	(28.6)	–	–	(28.6)
Currency translation movement	–	–	–	22.3	–	22.3
Retained profit for the financial year	–	–	–	–	87.6	87.6
Transfers between reserves	–	–	–	(1.9)	1.9	–
Balance at 31 December 1996	**74.1**	**416.5**	**(1,068.8)**	**117.8**	**482.7**	**22.3**
1997 movements						
Ordinary shares issued	0.2	5.1	–	–	(2.9)	2.4
Write-off of goodwill arising on consolidation in the year	–	–	(91.6)	–	–	(91.6)
Currency translation movement	–	–	–	(40.1)	–	(40.1)
Retained profit for the financial year	–	–	–	–	100.3	100.3
Share buybacks	(0.7)	–	–	0.7	(18.5)	(18.5)
Balance at 31 December 1997	**73.6**	**421.6**	**(1,160.4)**	**78.4**	**561.6**	**(25.2)**
1998 movements						
Ordinary shares issued in respect of acquisitions	3.1	129.6	–	–	(27.3)	105.4
Other ordinary shares issued	0.5	11.7	–	–	(8.1)	4.1
Transfers between reserves	–	–	1,160.4	(54.5)	(1,105.9)	–
Currency translation movement	–	–	–	4.0	–	4.0
Retained profit for the financial year	–	–	–	–	120.7	120.7
Share buy-backs	(0.6)	–	–	0.6	(21.3)	(21.3)
Balance at 31 December 1998	**76.6**	**562.9**	**–**	**28.5**	**(480.3)**	**187.7**

Other reserves at 31 December 1998 comprise: currency translation deficit £93.3 million (1997: £97.3 million, 1996: £57.2 million), revaluation reserve £nil (1997: £175.0 million, 1996: £175.0 million) capital redemption reserve £1.3 million (1997: £0.7 million, 1996: £nil) and merger reserve £120.5 million (1997: £nil, 1996: £nil). Transfers between reserves in 1998 are detailed in the Accounting Policies on page 52.

24 Acquisitions and disposals
Goodwill arising on acquisitions in the year comprised:

	Book value £m	Accounting policy alignment £m	Fair value adjustments £m	Fair value £m	Cost of acquisition £m	Goodwill £m
Asatsu-DK	75.6	(25.9)	(2.1)	47.6	109.0	59.6
Other	(4.2)	–	(17.4)	(21.6)	165.6	189.0
	71.4	**(25.9)**	**(19.5)**	**26.0**	**274.6**	**248.6**

Total goodwill of £248.6 million arising during the year includes £158.0 million in respect of the acquisition of subsidiary undertakings and £90.6 million in respect of associate undertakings. Included in these amounts are £105.7 million of cash paid and £63.5 million of additional future anticipated payments to vendors, based on the directors' best estimates of future obligations, which are dependent on future performance of the interests acquired.

Asatsu-DK
During the year, the Group acquired a 20% interest in Asatsu-DK, Japan's third largest advertising and communications company.

The cost of the acquisition comprised the issue of ordinary shares by the Group (£105.4 million) and cash costs (£3.6 million). The fair value of the Group's interest has been calculated as 20% of the net assets of Asatsu-DK at the date of acquisition less adjustments of £25.9 million required to bring the balance sheet of Asatsu-DK into line with accounting policies under UK GAAP and £2.1 million in respect of additional tax liabilities.

Acquisitions during 1998 did not have a significant impact on the Group's results for the year, nor were there any material disposals.

Other
Fair value adjustments of £17.4 million arising on other acquisitions include £10.6 million of additional tax liabilities and £6.8 million of other liabilities.

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

Company balance sheet
As at 31 December 1998

	Notes	1998 £m	1997 £m	1996 £m
Fixed assets				
Tangible assets		**5.8**	2.9	1.5
Investments	26	**1,661.1**	1,331.7	974.7
		1,666.9	1,334.6	976.2
Current assets				
Debtors (including amounts falling due after more than one year)	27	**60.4**	83.7	259.7
Cash at bank and in hand		**1.2**	48.8	32.4
		61.6	132.5	292.1
Creditors: amounts falling due within one year	28	**(329.6)**	(296.8)	(159.7)
Net current (liabilities)/assets		**(268.0)**	(164.3)	132.4
Total assets less current liabilities		**1,398.9**	1,170.3	1,108.6
Creditors: amounts falling due after more than one year	29	**(346.2)**	(336.4)	(301.1)
Net assets		**1,052.7**	833.9	807.5
Capital and reserves				
Called up share capital	30	**76.6**	73.6	74.1
Share premium account	30	**562.9**	421.6	416.5
Other reserves	30	**212.0**	88.0	87.3
Profit and loss account	30	**201.2**	250.7	229.6
Total equity capital employed		**1052.7**	833.9	807.5

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

Signed on behalf of the Board on 6 May 1999:
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 loss of £8.8 million (1997: profit of £55.3 million, 1996: profit of £4.2 million) in respect of the Company.

Notes to the Company balance sheet

26 Fixed asset investments and tangible fixed assets
The following are included in the net book value of fixed asset investments:

	Subsidiary undertakings £m	Own shares £m	Total £m
1 January 1997	957.4	17.3	974.7
Additions	347.3	12.7	360.0
Disposals	–	(3.0)	(3.0)
31 December 1997	1,304.7	27.0	1,331.7
Additions	298.3	33.3	331.6
Disposals	–	(2.2)	(2.2)
31 December 1998	**1603.0**	**58.1**	**1661.1**

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:

	1998 £m	1997 £m	1996 £m
Amounts owed by subsidiary undertakings	**28.8**	63.1	217.4
Other debtors	**31.6**	20.6	42.3
	60.4	83.7	259.7

Included within amounts owed by subsidiary undertakings are loans totalling £5.2 million (1997: £16.8 million, 1996: £186.4 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:

	1998 £m	1997 £m	1996 £m
Bank loans and overdrafts	**49.1**	60.9	27.2
Amounts due to subsidiary undertakings	**245.1**	214.7	116.9
Taxation and social security	**6.9**	–	–
Dividends proposed	**13.3**	10.6	8.3
Other creditors and accruals	**15.2**	10.6	7.3
	329.6	296.8	159.7

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

	1998 £m	1997 £m	1996 £m
Bank loans	**10.0**	–	12.5
Amounts due to subsidiary undertakings	**323.9**	321.3	270.6
Other creditors and accruals	**12.3**	15.1	18.0
	346.2	336.4	301.1

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

	1998 £m	1997 £m	1996 £m
Within two to five years	**10.0**	–	12.5

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

30 Share owners' funds
Movements during the year were as follows:

	Share capital £m	Share premium account £m	Other reserves £m	Profit and loss account £m
Balance at beginning of year	73.6	421.6	88.0	250.7
Ordinary shares issued in respect of acquisitions	3.1	129.6	–	–
Other ordinary shares issued	0.5	11.7	–	–
Currency translation movement	–	–	(4.0)	–
Retained loss for the financial year	–	–	–	(28.2)
Share buy-backs	(0.6)	–	0.6	(21.3)
Non-distributable receipt of dividend in specie	–	–	127.4	–
	76.6	562.9	212.0	201.2

Other reserves at 31 December 1998 comprise: Currency translation deficit £37.2 million (1997: £33.2 million, 1996: £33.2 million), capital redemption reserve £1.3 million (1997: £0.7 million, 1996: £Nil), merger reserve £120.5 million (1997: £120.5 million, 1996: £120.5 million) and capital reserve £127.4 million (1997: £Nil, 1996: £Nil).

At 31 December 1998 the Company's distributable reserves amounted to £201.2 million. Further details of the Company's movements in share capital are shown in note 23.

Reconciliation to US Accounting Principles

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

	Notes	For the year ended 31 December 1998 £m	1997 £m	1996 £m
Net income before dividends				
Net income before dividends under UK GAAP		**140.3**	116.0	100.0
US GAAP adjustments:				
Amortisation of goodwill and other intangibles	1	**(38.2)**	(34.1)	(35.2)
Deferred tax items	1	**–**	–	7.4
Executive compensation	1	**(2.6)**	(1.7)	(5.1)
		(40.8)	(35.8)	(32.9)
Net income as adjusted for US GAAP		**99.5**	80.2	67.1

Comprehensive income (total recognised gains and losses) for the year under UK GAAP was £144.3 million (1997: £75.9 million, 1996: £124.2 million).

	Notes	1998	1997	1996
Basic earnings per share as adjusted for US GAAP (p)	3	**13.5**	10.9	9.1
Diluted earnings per share as adjusted for US GAAP (p)	3	**13.2**	10.8	9.0

A reconciliation from UK to US GAAP in respect of earnings per share is shown below.

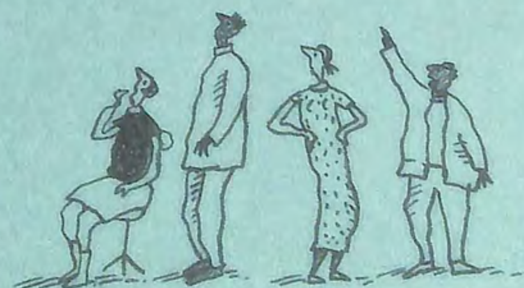
The Company applies US APB Opinion 25 and related interpretations when accounting for its stock option plans. Had compensation cost for the Company's stock option plans been determined based on the fair value at the grant date for awards under those plans consistent with the method of SFAS Statement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

	1998	1997	1996
Net income as adjusted for US GAAP:			
As reported (£m)	**99.5**	80.2	67.1
Pro forma (£m)	**96.8**	77.5	65.0
Basic earnings per share per US GAAP:			
As reported (p)	**13.5**	10.9	9.1
Pro forma (p)	**13.2**	10.6	8.8

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

	Notes	As at 31 December 1998 £m	1997 £m	1996 £m
Share owners' funds				
Share owners' funds under UK GAAP		**187.7**	(25.2)	22.3
US GAAP adjustments:				
Capitalisation of goodwill arising on acquisition (net of accumulated amortisation and amounts capitalised under UK GAAP)	1	**762.7**	932.8	926.7
Reversal of revaluation of corporate brand names	1	**–**	(175.0)	(175.0)
Shares owned by Employee Share Option Plan (ESOP)	1	**(58.1)**	(27.0)	(17.3)
Deferred tax items	1	**7.4**	7.4	7.4
Proposed final ordinary dividend, not yet declared	1	**13.4**	10.5	8.3
Other		**(4.4)**	(4.4)	(4.6)
		721.0	744.3	745.5
Share owners' funds as adjusted for US GAAP	2	**908.7**	719.1	767.8

Gross goodwill capitalised under US GAAP (before accumulated amortisation) amounted to £1,509.5 million (1997: £1,211.2 million, 1996: £1,182.3 million), net of disposals made. The movement in goodwill arises due to the impact of acquisitions made during the year and also its denomination in various currencies, resulting in exchange rate movements against sterling.



Notes to the Reconciliation to US Accounting Principles

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

Goodwill and US purchase accounting
Under US and UK GAAP, purchase consideration in respect of subsidiaries acquired is allocated on the basis of fair values to the various net assets, including intangible fixed assets, of the subsidiaries at the dates of acquisition and any net balance is treated as goodwill. Under UK GAAP, and in accordance with FRS 10 (Goodwill and Intangible Assets), goodwill arising on acquisitions on or after 1 January 1998 has been capitalised as an intangible asset. No amortisation has been provided against this goodwill for the reasons described in the note on accounting policies in the financial statements. Goodwill arising on acquisitions before 1 January 1998 was fully written off against share owners' equity, in accordance with the then preferred treatment under UK GAAP. Under US GAAP, goodwill in respect of business combinations accounted for as purchases would be charged against income over its estimated useful life, being not more than 40 years. Accordingly, for US GAAP purposes, the Group is amortising goodwill over 40 years. The Group reviews the carrying value and useful life of goodwill on an annual basis, giving consideration to the results of the entities to which it relates, and no write-down or shortening of the life is considered necessary.

Corporate brand names
Under UK GAAP, the Group carries corporate brand names as intangible fixed assets in the balance sheet. The initial recognition of the J. Walter Thompson corporate brand gave rise to a credit of £175.0 million to the revaluation reserve. This was not recognised under US GAAP. Following the implementation of FRS 10 under UK GAAP, this amount has been transferred to the profit and loss account reserve. Consequently, under US GAAP, the relevant reversal has been netted against goodwill capitalised in the balance sheet. 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.

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

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

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

Cash flows
Under UK GAAP the Group complies with the Financial Reporting Standard No. 1 Revised 'Cash Flow Statements' (FRS 1 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 FRS 1 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 FRS 1 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	1998 £m	1997 £m	1996 £m
Net income for the year under US GAAP	**99.5**	80.2	67.1
Prior year final dividend	**(10.5)**	(8.3)	(6.4)
Current year interim dividend	**(6.2)**	(5.2)	(4.1)
Retained earnings for the year	**82.8**	66.7	56.6
Ordinary shares issued in respect of acquisitions	**105.4**	–	–
Share options exercised	**4.1**	2.4	3.4
Shares owned by Employee Share Option Plan	**(31.1)**	(9.7)	(6.9)
Share buy-backs	**(21.3)**	(18.5)	–
Exchange adjustments:			
– Revaluation of goodwill	**43.1**	(51.2)	(121.1)
– Foreign currency net investment	**4.0**	(40.1)	22.3
Executive compensation	**2.6**	1.7	5.1
New additions to share owners' funds	**189.6**	(48.7)	(40.6)
Share owners' funds at 1 January	**719.1**	767.8	808.4
Share owners' funds at 31 December	**908.7**	719.1	767.8

3 Earnings per share – reconciliation from UK to US GAAP
Both basic and diluted earnings per share under US GAAP have been calculated by dividing the net income as adjusted for US GAAP differences by the weighted average number of shares in issue during the year. The calculation of the weighted average number differs for UK and US GAAP purposes as follows:

	Basic earnings per share No.	Diluted earnings per share No.
Under UK GAAP	735,700,122	746,939,733
Weighted average number of share options issued with exercise criteria not yet satisfied at 31 December 1998	–	4,115,097
Under US GAAP	735,700,122	751,054,830

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

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

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

5 Accounting for Derivative Instruments and Hedging Activities
In June 1998, the Financial Accounting Standards Board issued FAS No. 133, 'Accounting for Derivative Instruments and Hedging Activities'. The Statement establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The Statement requires that changes in the derivative's fair value be recognised currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting.

FAS No. 133 is effective for fiscal years beginning after 15 June 1999 and cannot be applied retroactively. The Company does not expect the impact of this new statement on the Company's consolidated balance sheet or results of operations to be material.

Five-year summary

	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m
Profit and loss					
Turnover (gross billings)	**8,000.1**	7,287.3	7,084.0	6,553.1	6,013.7
Revenue	**1,918.4**	1,746.7	1,691.3	1,554.9	1,426.9
Operating profit	**229.1**	194.9	170.1	135.0	108.2
Profit on ordinary activities before taxation	**212.8**	177.4	153.3	113.7	85.3
Profit attributable to ordinary share owners	**140.3**	116.0	100.0	68.7	47.4
Balance sheet					
Fixed assets	**942.9**	564.0	534.4	524.5	505.6
Net current liabilities	**(267.7)**	(286.3)	(147.6)	(165.0)	(146.7)
Creditors: amounts falling due after more than one year	**(401.5)**	(221.5)	(281.7)	(328.7)	(387.7)
Provisions for liabilities and charges	**(77.9)**	(74.5)	(78.2)	(88.8)	(76.9)
Net assets/(liabilities)	**195.8**	(18.3)	26.9	(58.0)	(105.7)
Net funds/(debt)	**134.3**	194.7	159.2	71.4	(38.0)
Average net debt	**(143.0)**	(115.0)	(145.0)	(214.0)	(268.0)

	1998	1997	1996	1995	1994
Our people					
Revenue per employee (£000) [1]	**75.0**	76.2	79.9	77.2	74.3
Operating profit per employee (£000)	**9.0**	8.5	8.0	6.7	5.6
Average headcount	**25,589**	22,909	21,166	20,152	19,198
Share information					
Basic earnings per ordinary share (net basis)	**19.1p**	15.8p	13.6p	9.4p	8.1p
Fully diluted earnings per share (net basis)	**18.8p**	15.7p	13.5p	9.4p	6.5p
Dividends per share	**2.56p**	2.13p	1.7p	1.31p	1.135p
Dividend cover [2]	**7.3**	7.4	7.9	7.2	5.7
Share price – high	**470p**	292p	254p	168p	132p
– low	**200p**	237p	157p	100p	87p
Market capitalisation at year end (£m) [3]	**2,803.8**	1,984.4	1,883.2	1,208.7	785.3

Notes

1 As noted earlier, the Group's reported revenues were adversely affected by the strength of sterling. As a result the reported revenue per employee in 1998 of £75,000 would have been £77,300 excluding the impact of currencies.

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

3 On 6 May 1999, the market capitalisation has increased to £4.0 billion.

Consolidated profit and loss account: euro illustration

For the year ended 31 December 1998

	1998 €m	1997 €m	1996 €m
Turnover (gross billings)	**11,817.0**	10,567.7	8,830.2
Cost of sales	**(8,983.3)**	(8,034.7)	(6,722.0)
Revenue	**2,833.7**	2,533.0	2,108.2
Direct costs	**(422.3)**	(403.2)	(317.6)
Gross profit	**2,411.4**	2,129.8	1,790.6
Operating costs	**(2,073.0)**	(1,847.2)	(1,578.6)
Operating profit	**338.4**	282.6	212.0
Income from associates	**23.8**	15.4	15.3
Profit on ordinary activities before interest and taxation	**362.2**	298.0	227.3
Net interest payable and similar charges	**(47.9)**	(40.7)	(36.3)
Profit on ordinary activities before taxation	**314.3**	257.3	191.0
Tax on profit on ordinary activities	**(98.9)**	(82.2)	(63.0)
Profit on ordinary activities after taxation	**215.4**	175.1	128.0
Minority interests	**(8.1)**	(6.8)	(3.4)
Profit attributable to ordinary share owners	**207.3**	168.3	124.6
Ordinary dividends	**(29.0)**	(22.8)	(15.5)
Retained profit for the year	**178.3**	145.5	109.1
Earnings per share (net basis)			
Basic earnings per ordinary share	**28.2¢**	22.9¢	17.0¢
Fully diluted earnings per ordinary share	**27.8¢**	22.8¢	16.8¢
Ordinary dividend per share			
Interim dividend	**1.24¢**	1.02¢	0.69¢
Final dividend	**2.54¢**	2.07¢	1.43¢

The consolidated profit and loss account and balance sheet have been presented in euros for illustrative purposes only using the approximate average rate for the year for the profit and loss account (1998: €1.4771 = £1, 1997: €1.45015 = £1, 1996: €1.2465 = £1) and the rate in effect on 31 December for the balance sheet (1998: €1.4169 = £1, 1997: €1.4948 = £1, 1996: €1.3677 = £1). This translation should not be construed as a representation that the pound sterling amounts actually represent, or could be converted into euros at the rates indicated.

Consolidated balance sheet: euro illustration

As at 31 December 1998

	1998 €m	1997 €m	1996 €m
Fixed assets			
Intangible assets:			
Corporate brands	**495.9**	523.2	478.7
Goodwill	**223.9**	–	–
Tangible assets	**236.2**	214.5	189.6
Investments	**380.0**	105.4	62.6
	1,336.0	843.1	730.9
Current assets			
Stocks and work in progress	**152.0**	149.0	128.7
Debtors	**1,265.4**	1,237.1	1,046.3
Debtors within working capital facility:			
Gross debts	**417.3**	501.1	361.2
Non-returnable proceeds	**(296.4)**	(316.4)	(239.3)
	120.9	184.7	121.9
Cash at bank and in hand	**600.6**	544.9	563.8
	2,138.9	2,115.7	1,860.7
Creditors: amounts falling due within one year	**(2,518.3)**	(2,543.6)	(2,062.5)
Net current liabilities	**(379.4)**	(427.9)	(201.8)
Total assets less current liabilities	**956.6**	415.2	529.1
Creditors: amounts falling due after more than one year	**(568.9)**	(331.1)	(385.3)
Provisions for liabilities and charges	**(110.4)**	(111.4)	(107.0)
Net assets/(liabilities)	**277.3**	(27.3)	36.8
Capital and reserves			
Called up share capital	**108.5**	110.0	101.4
Share premium account	**797.5**	630.2	569.6
Goodwill write-off reserve	**–**	(1,734.5)	(1,461.8)
Other reserves	**40.4**	117.2	161.1
Profit and loss account	**(680.5)**	839.5	660.2
Share owners' funds	**265.9**	(37.6)	30.5
Minority interests	**11.4**	10.3	6.3
Total capital employed	**277.3**	(27.3)	36.8

Financial glossary

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

Auditors' report

Report of the auditors to the members of WPP Group plc

We have audited the financial statements on pages 52 to 66, which have been prepared under the historical cost convention and the accounting policies set out on pages 52 to 53. 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 80, 81 and 82.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report including, as described on page 79, the financial statements. Our responsibilities as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company and the Group is not disclosed.

We review whether the statement on page 78 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Company's corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

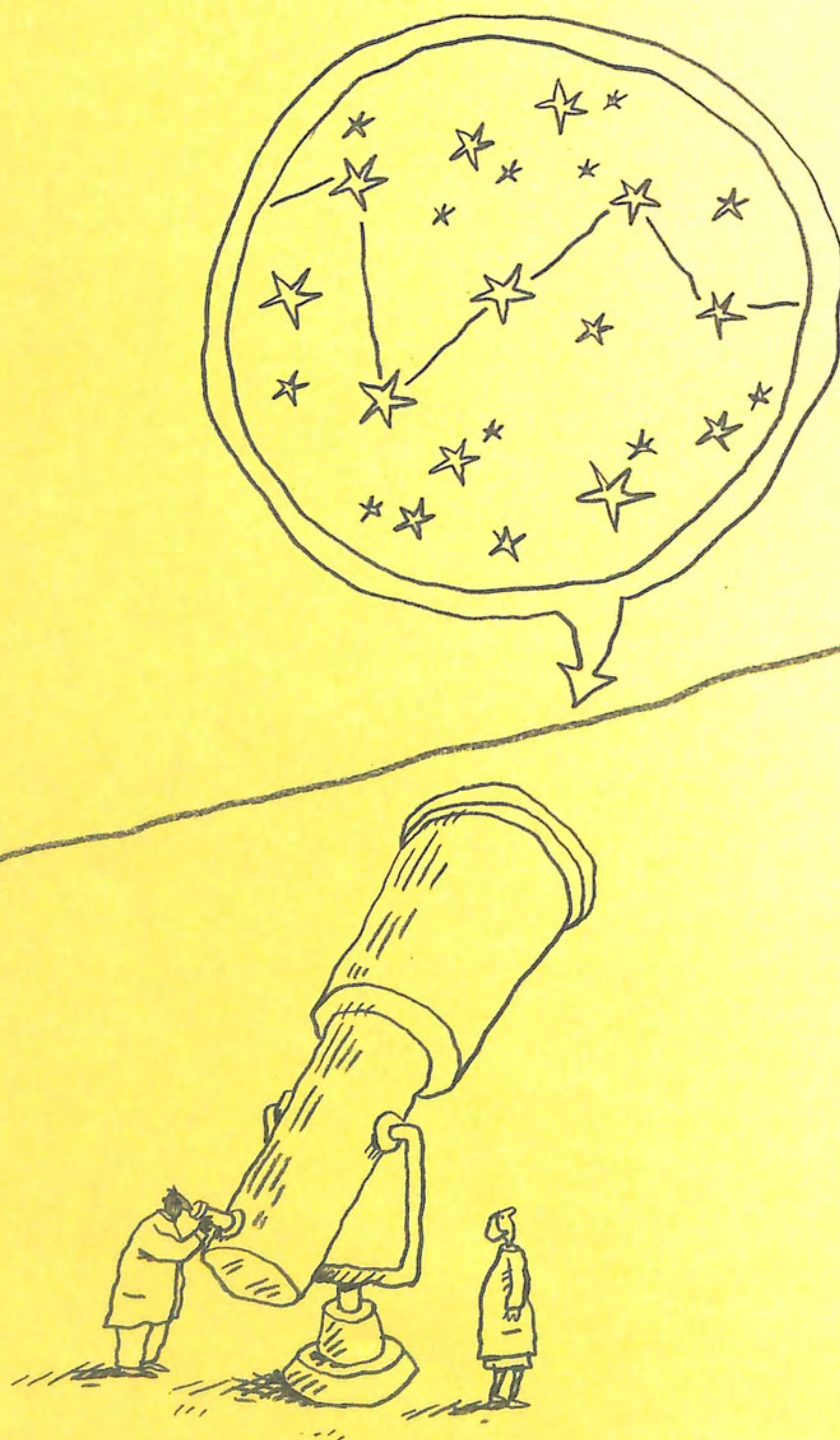
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

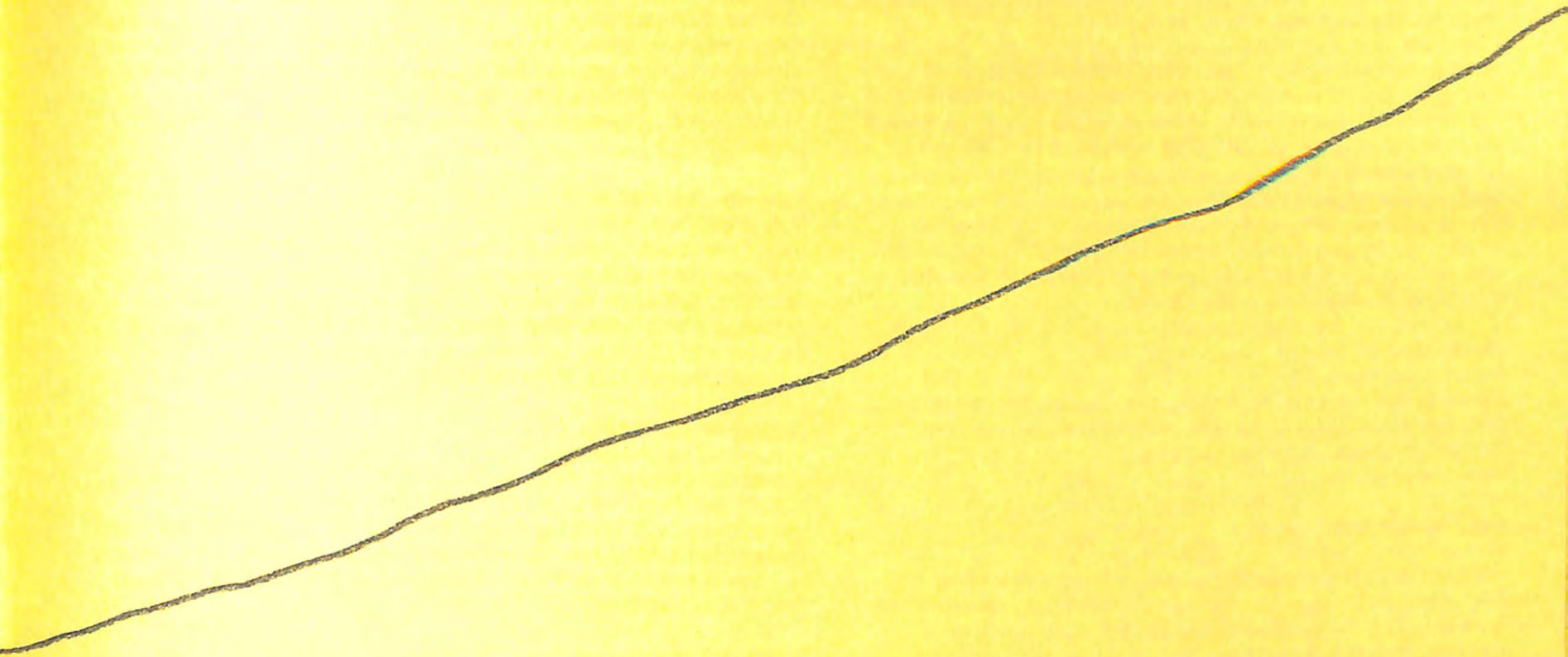
Opinion

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 1998 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen
Chartered Accountants and Registered Auditors
London
6 May 1999

Stewardship and remuneration





Board of Directors

Hamish Maxwell Age 72
Chairman (non-executive)
Hamish Maxwell became chairman of WPP in October 1996, after joining the Board in July 1996. Previously he had an international marketing and management career with Philip Morris Companies Inc, serving as chairman and chief executive from 1984 to 1991. He represents successful experience in marketing, finance and the media. Under his leadership, Philip Morris underwent fundamental change involving some of the largest takeovers the consumer goods industry has known: General Foods in 1985, Kraft in 1988 and Jacobs-Suchard in 1990. He is also a non-executive director of Bankers Trust and Sola International.

Martin Sorrell Age 54
Group chief executive
Martin Sorrell joined WPP in 1986 as a director, becoming Group chief executive in the same year. He is also a non-executive director of Colefax & Fowler Group plc.
e-mail: msorrell@wpp.com

Paul Richardson Age 41
Group finance director
Paul Richardson became Group finance director of WPP in December 1996 after four years with the Company as director of treasury. He is responsible for the Group's worldwide finance function, including external reporting, taxation, procurement, property, treasury and internal audit. Previously he spent six years with the central team of Hanson plc financing major acquisitions and disposals. He is a chartered accountant and member of the Association of Corporate Treasurers. He is a non-executive director of Chime Communications PLC.
e-mail: prichardson@wpp.com

Brian Brooks Age 43
Group director of human resources
Brian Brooks joined WPP in September 1992. He is responsible for co-ordinating the recruitment and development of senior talent throughout the Group, as well as career and succession planning for key people. He manages all WPP stock ownership plans, as well as total remuneration programs, in partnership with each WPP company. Previously he was a partner in Towers Perrin in New York and London. He is a lawyer and is admitted to practise law.
e-mail: bbrooks@wpp.com

Eric Salama Age 38
Group director of strategy
Eric Salama joined the parent company in 1994 and the Board in July 1996. He is responsible for developing and implementing the Group's strategy including practice development, integrated teams for clients, management training and the creation of new client offers. He is an adviser to the UK Government in the fields of creative and media industries and education. Previously he was joint managing director of The Henley Centre, a WPP company.
e-mail: esalama@wpp.com

Gordon Sampson Age 75
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 47
Non-executive director
John Quelch was appointed a director in 1987. He is Professor and Dean of the London Business School and was formerly the Sebastian S. Kresge Professor of Marketing at Harvard Business School. A prolific writer on marketing and public policy issues, he is the author of 12 books on marketing management. He is also a non-executive director of Pentland Group plc.

Jeremy Bullmore Age 69
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 and President of NABS.

John Jackson Age 69
Non-executive director
John Jackson was appointed a director in 1993. He is chairman of Ladbroke Group plc and a number of other public companies. He is also the non-solicitor chairman of Mishcon de Reya. He has extensive experience of a broad range of businesses, including television broadcasting, high technology industries, retailing, publishing, printing, biotechnology, electronics and pharmaceuticals.

Stanley Morten Age 55
Non-executive director
Stanley Morten was appointed a director in 1991. He is the chief operating officer of Punk, Ziegel & Company, a New York-based investment banking firm with a focus on selected emerging growth sectors in the healthcare and technology industries. He previously was managing director of the equity division of Wertheim Schroder & Co., Inc. in New York.

Joel Smilow Age 66
Non-executive director
Joel Smilow was appointed a director in 1998, having served as a Special Adviser to WPP since December 1995. He is a former chairman and chief executive officer of Playtex Products Inc., from which he retired in July 1995. He is also a non-executive director of Celadon Group Inc.

Masao Inagaki Age 76
Non-executive director
Masao Inagaki was appointed a director in September 1998 following WPP's equity investment in Asatsu-DK, Japan's third largest advertising and communications company. He founded Asatsu in 1956 and has been chairman and CEO since 1992. He is also vice president of the Japan Advertising Agencies Association. In January 1999, Asatsu Inc., became Asatsu-DK as a result of Asatsu's purchase of DIK. Masao Inagaki maintains his same positions, leading the new company.

Senior WPP executives and advisers to the Board

Parent company senior executives
Company secretarial and legal
M W Capes (Company secretary)
D F Calow
A J Harris

Specialist communications services
J F Zweig
M E Howe
S Sampson
A S J Rhymer

Communications and investor relations
F McEwan
A H N Hall
K McCormack

Strategic development
M A Villanueva

Financial control and management reporting
D Barker
J Drefs
N P Douglas
S Winters

Internal audit
N E Read
C Thomson

International tax
D M Roberts
T O Neuman
R Garry

International treasury
T J Lobene
A Koh
S Wilson

Property
A M Burkitt
J Murphy

Procurement
P E Williams
V Chimienti
P Gomes
K Liew
C H Vollet

Information technology
D A S Nicoll
A D L Stebbings
M Telling
S Harrison

Mergers and acquisitions
A H N Hall
L A Mellman
A G B Scott

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

HSBC Investment Bank
10 Lower Thames Street
London
EC3R 6AE

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

Merrill Lynch International
20 Farringdon Road
London
EC1M 3NH

Legal advisers
Allen & Overy
One New Change
London
EC4M 9QQ

Davis & Gilbert
1740 Broadway
New York
NY 10019

edge ellison
18/19 Southampton Place
London
WC1A 2AJ

MacFarlanes
10 Norwich Street
London
EC4A 1BD

Stockbrokers
West LB Panmure
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

PricewaterhouseCoopers
Southwark Towers
32 London Bridge Street
London
SE1 9SY

Executive remuneration consultants
Arthur Andersen
1 Surrey Street
London
WC2R 2PS

Towers Perrin
335 Madison Avenue
New York
NY 10017-4605

SCA Consulting
152 West 57th Street
New York
NY 10019

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

Knight Frank
Kings House
36 King Street
London
EC2V 8QQ

Directors' responsibilities

Corporate governance

The Company complied with the Code of Best practice issued by the Committee on The Financial Aspects of Corporate Governance until June 1998 and since that date the Company has complied with the Provisions of the Code of Best Practice as set out in Section 1 of the Combined Code, with the exception of the following matters:

(i) the appointment of a senior non-executive director only since 23 April 1998

(ii) setting an objective of reducing service contract periods to one year or less only in respect of the Group chief executive for reasons explained on page 88 and;

(iii) the reappointment of directors by share owners every three years, in respect of which, as noted below, the Company intends to amend its Articles of Association at the forthcoming Annual General Meeting.

The Auditor's report on this statement appears on page 73.

Directors' operational role and responsibilities

The Board of Directors is responsible for approving Group policy and strategy and is responsible to share owners for 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.

Hamish Maxwell is non-executive Chairman of the Board. Martin Sorrell as the Group chief executive is responsible for the development and implementation of policy and strategy and for the day-to-day operations of the Group.

The Board meets at least seven times a year. The Board consists of seven non-executive directors and five executive directors.

The non-executive directors provide a strong independent contribution. They 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. The non-executive directors are subject to re-election by rotation at Annual General Meetings.

Whilst certain non-executive directors hold shares in the Company they do not participate in the Company's share option schemes. The Chairmen of the Audit and Compensation committees may receive a part of their fees in ordinary shares, following the change to the Company's Articles of Association made at the 1998 Annual General Meeting.

The Company's Articles of Association require currently that at each Annual General Meeting of the Company each director appointed to the Board since the previous Annual General Meeting shall retire from office. In addition, one-third in number of the others must retire by rotation. Details of the directors who under the current Articles of Association of the Company are to retire and offer themselves for re-election are set out in the Notice of Annual General Meeting.

During the period under review Mr Smilow was appointed as a non-executive director on 23 April 1998 and Mr Inagaki as a non-executive director on 14 September 1998.

The Company proposes amending the Articles of Association to provide that a director appointed since the last Annual General Meeting, or who has held office for more than 30 months since his appointment or reappointment by the Company in general meeting shall retire from office but shall be eligible for reappointment. These amendments are designed to bring the Company's Articles of Association into compliance with the Combined Code.

A special resolution will be put to share owners to approve this amendment (Resolution 8). If the proposed change is approved by share owners the amended provisions will apply at the Company's Annual General Meeting in the year 2000.

All directors are kept informed of material developments in the various sectors in which the Group operates on a global basis.

They are also briefed as necessary on regulatory and best practice requirements which may affect the Group particularly in the US and the UK.

Biographical information on directors can be found on page 76.

Board Committees

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 currently comprises the following non-executive directors: Messrs J B H Jackson (Chairman), J J D Bullmore and S W Morten. With effect from February 1999 Mr Jackson replaced Mr Quelch as Chairman of the committee.

Compensation committee

The Compensation committee reviews the remuneration policy of the Group including base remuneration, incentive plans and terms of employment of executive directors and senior executives of the Company, and directors and senior executives of operating companies. The committee comprises exclusively non-executive directors: Messrs S W Morten (Chairman), H Maxwell and J A Quelch. Each non-executive director is independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

The Compensation committee consults the Group chief executive and the Group director of human resources about proposals relating to the remuneration of other executive directors and has access to professional advice inside and outside the Company, including independent executive remuneration consultants.

Nomination committee

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

Senior independent non-executive director

In accordance with the requirements under the Combined Code, the Company has appointed a senior independent non-executive director to be available to deal with concerns regarding the Company where it would be inappropriate for such concerns to be conveyed through the Chairman or Group chief executive. The director appointed to this role on 23 April 1998 is J A Quelch.

Internal financial controls

The Cadbury Committee required companies to report on internal financial controls. The new Combined Code now requires that companies review all internal controls including financial, operational, compliance controls and risk management. In December 1998 the London Stock Exchange announced that, pending the introduction of new guidance on the scope, extent and nature of the new Combined Code review, a company would satisfy the requirements of the Code by reporting on internal financial controls pursuant to existing guidance relating to the Cadbury Committee. The Group has adopted this approach.

The Board of Directors has overall responsibility for the system of internal 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.

Directors' responsibilities continued

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. Compliance with this Code of Conduct is confirmed annually by all senior executives in the Group. The WPP Policy Book is regularly updated.

Operating unit controls
Procedures have been developed whereby each operating unit completes an annual 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 client management and operational performance, treasury matters (including management of working capital), management of staff, 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 1999 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 and 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.

Relations with share owners
Relations with share owners including potential share owners and investment analysts are regarded by the Group as extremely important.

The Group has a well developed continuous programme to address the needs of share owners, investment institutions and analysts for a regular flow of information about the Company, its strategy, performance and competitive position. Given the wide geographic distribution of the Group's current and potential share owners, this programme includes regular visits to investors in the UK, Continental Europe and the major financial centres in North America together with a more limited programme in Asia Pacific. As the US provides the single largest group of share owners, the Company provides a quarterly trading update at the end of the first and third quarters in addition to semi-annual reporting required in the UK. The Company also maintains a Website providing investors with a regular source of information.

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 86 to 91.

Remuneration of the directors was as follows:

							Long-term incentive plans		Pension contributions	
Chairman	Location	Salary and fees £000	Other benefits £000	Short-term incentive plans (annual bonus)[1] £000	1998 Total £000	1997 Total £000	1998 Total £000	1997 Total £000	1998 Total £000	1997 Total £000
H Maxwell	USA	100	–	–	100	100	–	–	–	–
Executive directors										
M S Sorrell	UK	712	23	605	1,340[2]	1,349	–	1,219[3]	315	316
B J Brooks	USA	172	2	95	269	240	188[4]	831	21	14
P W G Richardson	UK	180	22	99	301	291	107[5]	87	18	18
E R Salama	UK	150	19	90	259	235	126[5]	47	15	14
G C Sampson	UK	70	7	5	82	76	–	–	–	–
Non-executive directors										
J J D Bullmore[6]	UK	77	18	–	95	96	–	–	–	–
M Inagaki[7]	Japan	5	–	–	5	–	–	–	–	–
J B H Jackson	UK	20	–	–	20	20	–	–	–	–
S W Morten	USA	21	–	–	21	21	–	–	–	–
J A Quelch[6]	USA	33	44	–	77	98	–	–	–	–
J Smilow[8]	USA	15	–	–	15	–	–	–	–	–
Other resigned in 1998		–	–	–	–	10	–	–	–	–
Total remuneration		**1,555**	**135**	**894**	**2,584**	**2,536**	**421**	**2,184**	**369**	**362**

Notes

1 Amounts included in short-term incentive plans represent bonuses in respect of 1998 performance, paid in 1999.

2 The amount of salary and fees comprises the fees payable under the UK Agreement with JMS Financial Services Limited ('JMS') and the salary payable under the US Agreement referred to on page 88. In 1998, 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 $1.6574 to £1.

3 The amount in respect of 1997 of £1,219 million was in respect of phantom options granted in relation to 1993. No amount was received in 1998. The performance conditions for the final tranches of the Capital Investment Plan and the Notional Share Award Plan respectively were met on 4 June 1998. The value of these Plans is not shown in the above table as the ultimate value will depend on the share price in September 1999.

4 This amount in 1998 represents a payment under the Performance Share Plan and in 1997 represented a payment under the Performance Share Plan and a gain realised on the exercise of share options.

5 This amount represents a payment under the Performance Share Plan.

6 Messrs. Bullmore and Quelch have consulting arrangements with the Company in addition to their respective fees as non-executive directors. Following his appointment as Dean to the London Business School on 1 July 1998, Mr Quelch has ceased to carry out additional consultancy services.

7 Appointed 14 September 1998.

8 Appointed 23 April 1998.

Directors' remuneration and interests continued

Directors' interests

Ordinary shares

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

	At 1 Jan 1998 or date of appointment if later	Shares acquired through long-term incentive plan awards in 1998[2]		Other interests as at 31 Dec 1998 inc. shares purchased in 1998[1]	At 31 Dec 1998[1]	Shares acquired through long-term incentive plan awards in 1999		Other interests acquired (disposed of) since 31 Dec 1998[3]	At 6 May 1999[1]
		Vested	(sold)			Vested	(sold)[2]		
B J Brooks	307,858	48,869	(43,989)	68,967	381,705	36,966	(22,186)	–	396,485
J J D Bullmore	20,065	–	–	–	20,065	–	–	–	20,065
M Inagaki [5]	–	–	–	–	–	–	–	–	–
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	316,176	32,265	(5,265)	32,468	375,644	21,086	(3,086)	–	393,644
E R Salama	375,442	17,559	–	90,909	483,910	24,719	(9,719)	(89,733)	409,177
G C Sampson	550,000	–	–	4,313	554,313	–	–	–	554,313
J E Smilow	100,000	–	–	–	100,000	–	–	–	100,000
M S Sorrell	9,578,038	3,515,376	–	–	13,093,414	–	–	–	13,093,414

Notes

1 Interests include exercisable but unexercised options. In the case of Mr Sorrell this includes interest or rights in 1,571,190 and 577,391 unexercised phantom options granted in 1993 and 1994 respectively as referred to on page 88, 4,691,392 shares in respect of all four tranches of the Capital Investment Plan and 1,754,520 shares in respect of all three tranches of the Notional Share Award Plan, in respect of which, in each case the performance had been satisfied prior to 31 December 1998.

2 Further details of the long-term incentive plan are given in note 3 on page 87.

3 In the case of Mr Salama, the disposal of an interest since 31 December 1998 relates to the exercise of share options included in his interests as at 31 December 1998.

4 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 1998, the Company's ESOPs held in total 25,532,484 shares in the Company, (1997: 16,456,119 shares).

5 Mr M Inagaki is a director and chairman of Asatsu-DK, which at 6 May 1999 was interested in 31,295,646 shares representing 4.1% of the issued share capital of the Company.

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

Share Options

Outstanding options granted to the directors are as follows:

	At 1 Jan 1998	Granted/ (lapsed) 1998	Exercised/ realised 1998	Exercised/ retained 1998	At 31 Dec 1998	Exercised 1999	At 6 May 1999	Exercise date		Exercise price per share	Market price per share on date of exercise
	Number	Number	Number	Number	Number	Number	Number[1]	Commencement	Expiry		
B J Brooks	68,967	–	–	–	68,967	–	68,967	Dec 1998	Dec 2005	158.0p	n/a
P W G Richardson	100,000	–	–	–	100,000	–	100,000	Jan 1996	Jan 2000	40.0p	n/a
	102,941	–	–	–	102,941	–	102,941	Oct 1996	Oct 2003	102.0p	n/a
	88,235	–	–	–	88,235	–	88,235	Sep 1997	Sep 2004	119.0p	n/a
	32,468	–	–	–	32,468	–	32,468	Sep 1998	Sep 2005	154.0p	n/a
	24,497	–	–	–	24,497	–	24,497	Sep 1999	Sep 2006	233.5p	n/a
E R Salama	67,227	–	–	–	67,227	(67,227)	–	Sep 1997	Sep 2004	119.0p	499.5p
	90,909	–	–	–	90,909	(90,909)	–	Sep 1998	Sep 2005	154.0p	499.5p
G C Sampson	4,313	–	–	–	4,313	(4,313)	–	Apr 1998	Apr 2005	108.0p	499.5p

Notes

1 As at 6 May 1999 all of Mr Brook's 68,967 options were exercisable but unexercised, as were 323,644 of Mr Richardson's options.

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

3 2,196,190 phantom options were granted to JMS in relation to 1993 at a base price of 52.5p per share, exercisable between April 1996 and April 2003 and 577,391 in relation to 1994 at a base price of 115p per share, exercisable between September 1999 and April 2004. In 1997, JMS exercised 625,000 phantom options granted in relation to 1993. This leaves 1,571,190 unexercised phantom options granted in relation to 1993.

4 The closing share price at 31 December 1998 was 365.8p and the share price during the year ranged between 200.0p and 470.0p.

Other long-term incentive plan awards[1]

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

	At 1 Jan 1998 Number	Granted/ (lapsed) 1998 Number	Vested 1998 Number	At 31 Dec 1998 Number	Granted 1999 Number	Vested 1999 Number	At 6 May 1999 Number	Performance period	Price per share of vested units on valuation date[2]
B J Brooks	48,869	–	48,869	–	–	–	–	1 Jan 1995 – 31 Dec 1997	269.5p
	73,933	–	–	73,933	–	36,966	36,966	1 Jan 1996 – 31 Dec 1998	365.8p
	60,864	–	–	60,864	–	–	60,864	1 Jan 1997 – 31 Dec 1999	n/a
	–	46,728	–	46,728	–	–	46,728	1 Jan 1998 – 31 Dec 2000	n/a
P W G Richardson	32,265	–	32,265	–	–	–	–	1 Jan 1995 – 31 Dec 1997	269.5p
	42,172	–	–	42,172	–	21,086	21,086	1 Jan 1996 – 31 Dec 1998	365.8p
	67,925	–	–	67,925	–	–	67,925	1 Jan 1997 – 31 Dec 1999	n/a
	–	55,513	–	55,513	–	–	55,513	1 Jan 1998 – 31 Dec 2000	n/a
E R Salama	17,559	–	17,559	–	–	–	–	1 Jan 1995 – 31 Dec 1997	269.5p
	49,438	–	–	49,438	–	24,719	24,719	1 Jan 1996 – 31 Dec 1998	365.8p
	56,604	–	–	56,604	–	–	56,604	1 Jan 1997 – 31 Dec 1999	n/a
	–	46,261	–	46,261	–	–	46,261	1 Jan 1998 – 31 Dec 2000	n/a
M S Sorrell[3]	6,445,912	–	–	6,445,912	–	–	6,445,912	4 Sep 1994 – 4 Sep 1999	n/a

Notes

1 All awards shown on this table, except the 6,445,912 shares referred to in note 3, were made under the performance share plan, details of which can be found on page 87.

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

3 The 6,445,912 shares represent the maximum number of shares, or cash equivalent of shares which could vest, under the Capital Investment Plan and the Notional Share Award Plan. Details of these two Plans which expire in September 1999 are set out on page 88. All shares and awards, must be retained until September 1999 and consequently their value cannot be established until that time. As of 6 May 1999, the performance conditions in respect of all four tranches of the Capital Investment Plan and all three tranches of the Notional Share Award Plan had been satisfied. Under arrangements made with Mr M S Sorrell relating to the payment on his behalf of US withholding tax under the Capital Investment Plan and pension payments made under the US Agreement, WPP Group USA Inc. has made payments of which the maximum amount outstanding during the year was $500,967 and which remained outstanding at 31 December 1998.

Other statutory information

The following information, together with the directors' responsibilities and statement of going concern, set out on pages 78 and 79, the charitable donations made during the year set out on page 85 and the directors' remuneration and interests set out on pages 80 to 82 constitutes the Directors' Report.

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

Substantial share ownership
As at 30 April 1999, the Company is aware of the following interests of 3% or more in the issued ordinary share capital of the Company:

Morgan Stanley Asset Management Limited	7.6%
Legg Mason	5.8%
Asatsu-DK	4.1%

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

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

Profits and dividends
The profit on ordinary activities before tax for the year was £212.8 million (1997: £177.4 million). The directors recommend a final ordinary dividend of 1.72p (1997: 1.43p net) per share to be paid on 12 July 1999 to share owners on the register at 11 June 1999 which, together with the interim ordinary dividend of 0.84p net (1997: 0.7p) per share paid on 23 November 1998, makes a total of 2.56p for the year (1997: 2.13p net). The retained profit for the year of £120.7 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 and 13.

Share capital
Details of share capital movements are given in note 23 on page 64.

Supplier payment policy
As the Company is a parent company it has no trade creditors and accordingly no disclosure can be made of the year end creditor days. However the Group's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction, and to ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. The average trade creditors for the Group, expressed as a number of days, were 47 (1997: 47).

Year 2000 compliance
The Year 2000 issue, which has received widespread publicity during the last two years as the 'Millennium Bug', could impact any organisation whose business is supported by information technology systems or chip-dependent equipment. The scale of any adverse impact on business continuity will depend upon:
- the extent to which an organisation and its business partners rely upon such systems or equipment; and
- the success of the steps it takes to achieve Year 2000 compliance.

The inability of certain software to recognise correctly a number of key dates during 1999 and 2000 may result in the failure of systems or equipment such that they cease to work, or incorrectly display, read or calculate dates or periods of time.

WPP 2000
In 1997 WPP initiated a group-wide programme of work designed to achieve its Year 2000 compliance objectives by 30 June 1999. The approach of the 'WPP 2000' programme was set out in a comprehensive set of guidelines which was approved by the Board in early 1998 and issued to the senior management of the parent and every operating company.

The WPP 2000 programme plan comprises a number of phases – planning, inventory and prioritisation, testing, systems and product remediation and contingency planning. The programme has been rolled out to all subsidiaries and material associated and affiliated companies.

The programme's scope includes all internal information technology systems, products and services sold to clients, critical suppliers, some major clients and building facilities. Each of these aspects has been assessed for business criticality and risk of failure. Resources have been targeted initially at the most critical areas of non-compliance.

Status
All internal information technology systems are being tested for Year 2000 compliance. A number of testing techniques continue to be employed including proprietary testing software which has become a group standard for WPP. Products and services are being similarly tested and reviews made of related contractual exposure. Business critical suppliers have been asked to provide Year 2000 compliance warranties and details of their compliance progress. Where relevant, operating companies are also carrying out extensive testing of key business systems provided by third parties. The Year 2000 compliance progress of certain major clients is being monitored and key building facilities are being assessed for compliance.

Due to the diversity between the Group's operating companies, their systems, products and suppliers, the level of progress inevitably varies. While some companies are still in the testing phase and others are already developing contingency plans, most are mid-way through the remediation phases. The focus of the Group's efforts remains on its business critical systems, products and suppliers and most are now expected to achieve Year 2000 compliance by the target date of 30 June 1999.

Where non-compliance has already been identified, operating companies have implemented plans to retire, repair or replace systems by 30 June 1999. Clients are being kept informed about similar changes to products and services. The Year 2000 compliance of all repaired and replaced systems, products and services will continue to be tested up to the end of 1999.

In order to provide for unforeseen problems WPP operating companies are in the process of developing contingency plans for all business critical systems, products and services, vendors and building facilities, notwithstanding their Year 2000 compliance. Suitable plans will also be developed for non-business critical items where there remains a high risk of Year 2000 failure.

Other statutory information continued

WPP involvement
WPP and its operating companies monitor progress made in achieving Year 2000 compliance objectives by means of a monthly reporting process. The process is also designed to highlight key risks and issues and their resolution to various levels within the Group including the Board of Directors and Audit Committee.

The Group is contributing to industry-wide initiatives on Year 2000 in both the US and UK through the AAAA and IPA, and is also a signatory to the UK Government's 'Action 2000' campaign.

Resources and cost
The WPP 2000 programme is forecast to require between 1997 and 2000 in excess of 35,000 man-days of effort of which over 80% relates to the use of existing staff. The impact of this on information technology development priorities has meant that most non-business critical projects have been postponed. However, many previously planned new developments, some of which have been accelerated, have also been implemented in order to achieve Year 2000 compliance.

The total cash cost of 'WPP 2000' programme is currently estimated to be in the region of $20 million being expended between 1997 and 2000. WPP does not expect the cost of achieving its Year 2000 compliance objectives to be material to the Group's earnings and such costs continue to be expensed as incurred.

	1997 $m	1998 $m	1999 $m	2000 $m	Total $m
Internal resource	1	3	5	1	10
External resource	0	1	1	0	2
Other costs	0	3	5	0	8
Total cost	1	7	11	1	20

Worst case scenario and cautionary statement
The WPP 2000 programme is designed to avoid any material adverse impact of the Year 2000 on the business continuity and financial condition of WPP operating companies. Notwithstanding this programme of work, there is no assurance that a WPP operating company will not encounter limitations, interruptions and other difficulties due to the Year 2000 problem. The most reasonably likely worst case scenario would be a significant limitation on one or more operating company's ability to continue to provide services to its clients for an undetermined duration. Such limitation may also be caused by the failure of a business critical supplier outside the control of an operating company.

Statements by WPP in this document and in other contexts concerning its Year 2000 compliance that are not historical fact are forward-looking statements as defined in the US Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those anticipated in the forward-looking statements, including, but not limited to, the following: uncertainties relating to the ability of WPP to identify and address Year 2000 issues successfully in a timely manner and at costs that are reasonably in line with WPP's estimates and the ability of WPP's suppliers and other service providers and customers to identify and address successfully their own Year 2000 issues in a timely manner.

Economic and monetary union in Europe – ('EMU')
The Group's European companies, including those in the UK, have been preparing for the introduction of the single currency within Europe in 1999. These preparations principally include analysis of the impact of the single currency on the business of the Group's operating companies and the upgrading of information systems. In many cases the measures being taken to achieve Year 2000 compliance have also addressed the implications of euro-denominated transactions.

To date, the proportion of clients and suppliers in Europe requiring euro-denominated transactions is less than 15%. The Group's companies in Belgium have already adopted the euro as their functional currency from 1 January 1999. The lessons of this pilot project will be applied to similar conversion projects in the remaining EMU based operating companies up to the end of 2000.

WPP does not expect the introduction of the euro to have a material effect on the Group's trading performance and all associated costs are being expensed as incurred.

The Group does not anticipate changing its reporting currency to the euro until the UK decides to join EMU. For information purposes, however, the Group profit and loss account and balance sheet are shown in euros on pages 70 and 71.

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

By Order of the Board
M W Capes
Secretary
6 May 1999

Corporate citizenship

Environmental policy
As a mainly service-based company our impact on the environment is small, but the Group recognises that the pursuit of economic growth and a healthy environment are inextricably linked. WPP, as a parent company to our operating companies, upholds the principle of 'subsidiarity' and charges our companies to adhere to best practice. We endeavour to adopt good environmental practice in respect of premises, equipment and consumption of resources. The Group supports the UK's 'Making a Corporate Commitment' campaign for energy efficiency.

Support for the arts
WPP recognises that close connections with the arts world is a vital and liberating experience for individuals, not least for those whose business hinges on management of the imagination. We therefore encourage and foster mutually beneficial partnerships between our operating companies and arts organisations. Many WPP employees are active in their own arts communities, giving time and marketing counsel to a variety of arts-based organisations and activities around the world.

The Group is a corporate sponsor of the UK's Royal National Theatre which underpins a developing partnership of mutual opportunity and support. WPP is also a corporate patron of the National Portrait Gallery in London and is a founder member of the innovative Creative Forum for Culture and the Economy, a 'think and action tank' founded by UK industry body Arts & Business for business leaders dedicated to developing dynamic relationships between business and the arts.

Community partnerships and charitable donations
Much of the strength of the Group springs from its significant local presence around the world, and so by far the largest component of our support for charities and local communities is determined and contributed by our operating companies at local level.

At the parent company level, WPP supports a number of community programmes including the Partnership Against Drugs, a UK-government initiative led by Business in the Community, and has participated in the Prince of Wales' Business Leaders' Forum. WPP is a founder member of the RSA's initiative, Centre for Tomorrow's Company, which advances best competitive – and ethical – business practice.

As part of WPP's strategy of supporting young people through education, we have pledged £60,000 to London's first Arts College for the Media Arts: Charles Edward Brooke, a state secondary school for girls from multi-ethnic backgrounds. This government-backed initiative aims to equip young people with the skills needed to succeed in business and to make learning more relevant to the needs of future employers. Group companies are contributing help, counsel and equipment to the college.

For the past five years, WPP has sponsored young South Africans, enabling them to attend Cape Town's career-developing Red & Yellow School of Logic & Magic for aspiring designers and copywriters.

Operating companies are responsible for their own charitable policies which enables them to support local projects and organisations according to circumstances and employee views. Many of our operating companies, such as our advertising agencies and public relations consultancies, have highly developed programme of charitable and pro bono activity involving their people at corporate and individual levels. They contribute to their communities and selected charities in imaginative ways: from city clean-up operations to awaydays with disadvantaged young people to taking roles as school governors.

WPP, the parent company, continues to concentrate its charitable giving in the areas of education and training of young people, with particular emphasis on those who are disadvantaged. Besides financial support, WPP encourages charitable support in kind through its operating companies who can, for instance, implement identity programmes or marketing campaigns.

The parent company contributed £138,928 in 1998 (1997: £122,831).

It is not the Group's policy to make payments for political purposes.

Compensation committee report

This report is made by the Board. It sets out the Company's statement of how it has applied the principles of good governance set out in the Combined Code and explains any areas of non-compliance. Additional information on executive remuneration similar to a US proxy disclosure is also included in this report.

In addition the Compensation committee has followed the requirements set out in Schedule A of the Combined Code, when determining the remuneration packages of executive directors and has followed the provisions of Schedule B of the Combined Code when preparing the Compensation committee report.

As stated above the Company proposes amending its Articles of Association to provide for the retirement of directors in accordance with the requirements of the Combined Code. Currently directors are not required to be reappointed every three years.

The Report of the Auditors on the financial statements set out on page 73 confirms that the scope of their report covers the disclosures contained in or referred to in this Report that are specified for their examination by the London Stock Exchange.

Details of each individual director's remuneration and of their beneficial holdings of the Company's shares and share options are set out on pages 80 to 82.

Role of the Compensation committee

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

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

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

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

The Compensation committee determines the remuneration of the Group chief executive, a summary of which is set out on page 88, on the basis of a comparison with the chief executives of other global, multi-agency communications companies, including the Omnicom Group and The Interpublic Group. 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.

WPP Remuneration Policy

The remuneration programmes established for executive directors and senior executives of the Group's operating companies and the parent company are designed to provide competitive total remuneration opportunities which will attract, retain and reward the best talent available in the marketing communications sector. 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 programme includes significant opportunities to acquire WPP stock consistent with the Group strategy of building a strong ownership culture.

Elements of Executive Remuneration

The following comprised the principal elements of executive remuneration for the period under review:

I Base salaries

Base salary levels are established by reference to the market median 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, scope of responsibility and the competitiveness of total remuneration.

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 Group chief executive for operating company chief executive officers and parent company executive directors and by the chief executive officer of each operating company for all other executives.

II Annual incentive remuneration

Annual incentives are paid under plans established for each operating company and for executives of the parent company. Group-wide, there are approximately 3,000 participants in annual incentive plans, or 12% of all employees. In the case of the Group chief executive and other parent company directors and executives, the total amount of bonus payable is based on the achievement of Group operating profit and operating cash flow targets established by the Compensation committee and approved by the Board. In the case of each operating company, operating profit targets are agreed each year.

Within the limits of available bonus funds individual bonuses are paid on the basis of achievements against individual performance objectives, encompassing key strategic and financial performance criteria, including:

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

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. Higher awards may be paid 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 commencing 1 January 1999 is 50% of base salary and the maximum 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. During 1998, Group-wide, approximately 500 or 2.5% of all employees participated in a long-term incentive plan.

The Compensation Committee reviews from time to time the operation of the Group's long-term incentive programmes to ensure that the performance measures and levels of reward are appropriate and competitive.

Parent company
At the current time the only long-term incentive programme for executive directors (excluding the Group chief executive) consists of annual grants of WPP performance shares. For awards currently outstanding, the value of each performance share is equivalent to one WPP share and the number of shares vesting over each three year performance period is dependent on the growth of WPP's total share owner return relative to the growth of total share owner return of seven major publicly traded marketing services companies. Currently these companies are Asatsu (in which the Company has a 20% equity interest), Cordiant, Grey Advertising, The Interpublic Group, 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. Currently, at median performance, 50% of the performance shares vest, with higher percentages vesting for superior performance up to 100% if WPP ranks at least equal to the second ranking peer company.

Over the 1996-98 performance period, WPP's performance ranked second among the peer group companies. Contingent grants of performance shares for the 1996-98, 1997-99 and 1998-2000 periods range from 25% to 80% of base salary.

Operating companies
Senior executives of most Group operating companies participate in long-term incentive plans, which provide awards in cash and restricted WPP stock for the achievement of three-year financial performance targets. These plans operate on a rolling three-year basis with, for example, an award which became payable in March 1999 under the 1996-98 long-term incentive plan. The value of payments earned by executives over each performance period is based on the achievement of targeted improvements in the following performance measures:

– average operating profit or operating cash flow;
– average operating margin.

From the period 1998-2000, the stock portion of each payment is 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 received annual grants of WPP stock options through their membership of the WPP Group '100 Club' or '300 Club'. This recognises their contributions to the achievement of WPP's strategic aims, including business co-operation across operating companies. All members of the 100 and 300 Clubs, including the chief executive officer of each operating company, receive an annual grant of fair market value WPP stock options, which are exercisable either three or five years from the grant date assuming that specific performance conditions are met (including achievement of the employing company's long-term targets). Each year the grant value (number of shares times fair market value at the grant date) of these awards ranges from approximately 15% to 100% of base salary.

Executive Stock Ownership Policy
During 1996, the Company introduced stock ownership goals for the most senior executives in the Group. These range from 50% to 400% of salary. Stock option grants will vary depending on whether an individual achieves and maintains specified levels of WPP stock ownership.

Executive Stock Option Plan and Worldwide Ownership Plan
The 1996 Executive Stock Option Plan has been used to make option grants to members of the 100 and 300 Clubs and key employees of the parent company, excluding parent company executive directors and the Group chief executive.

In 1997 the Company broadened stock option participation by introducing the Worldwide Ownership Plan for all employees of 100%-owned Group companies with at least two years' service, in order to develop a stronger ownership culture and greater knowledge of Group resources. As at 30 April 1999 options under this Plan had been granted to 9,766 employees over 5,733,725 ordinary shares of the Company.

Retirement benefits
The form and level of company-sponsored retirement programmes varies depending on historical practices and local market considerations. The level of retirement benefits is regularly considered when reviewing executive remuneration levels.

In the two markets where the Group employs the largest number of people, the US and UK, pension provision generally takes the form of defined contribution benefits, although the Group still maintains one defined benefit plan in the US and three defined benefit plans in the UK. In each case, these pension plans are provided for the benefit of employees in specific operating companies and in the case of the UK plans, are closed to new entrants. All pension coverage for the parent company's executive directors is on a defined contribution basis and only base salary is pensionable under any Company retirement plan. Details of pension contributions for the period under review in respect of parent company executive directors are set out on page 80.

Notice periods
Each of the parent company executive directors is employed under a contract under which the executive director must give the Company 12 months' notice and the Company must give the executive 12 months' notice.

The Board unanimously consider that, given the special position of the Group chief executive and the personal investment commitment made by him to the Company, there are special circumstances in respect of the notice period applicable to him, which is for a fixed term of three years from 1 September 1998 for a term of three years renewable on or before 1 September each year. The Company anticipates that the current term will be renewed in September 1999 on this basis.

Directors' service contracts
The Group chief executive: Mr M S Sorrell
Mr Sorrell's services to the Group in the UK are provided by JMS Financial Services Limited ('JMS') and in addition Mr Sorrell is directly employed by WPP Group USA, Inc. relating to his activities in the USA. Taken together, the agreement with JMS ('the UK Agreement') and the agreement with Mr Sorrell directly ('the US Agreement') provide for the following remuneration all of which is disclosed on pages 80 to 82:

- annual salary and fees of £712,000;
- annual pension contributions of £315,000;
- short-term incentive (annual bonus);
- the Capital Investment Plan;
- the Notional Share Award Plan.

In addition JMS was entitled to phantom options linked to the WPP share price, granted in relation to 1993 and 1994 as disclosed on page 81. No further phantom options have been or will be granted to JMS or Mr Sorrell.

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 and it will therefore come to an end this September.

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. Upon the achievement of specific performance criteria, which resulted in substantially increased share owner value, Mr Sorrell became 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 becomes entitled under the CIP is 4,691,392. These Performance Shares had already been acquired by an ESOP in 1994 at a total cost of approximately £5.5 million.

As at 31 December 1998, the performance criteria had been met in respect of all four tranches of Performance Shares. The performance criteria was based on the WPP share price maintaining over a sustained period, threshold price levels of 198p, 230p, 265p and 304p respectively for each tranche. In addition, the WPP share price had to outperform the FTSE 100 Index and the Company's earnings per share growth had to exceed Retail Price Index growth plus 1% per annum over the period until the price threshold is satisfied.

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

As at 31 December 1998 the performance criteria had been met in respect of all three share price levels of 230p, 265p and 304p respectively. Authority was given to the Company at last year's Annual General Meeting enabling it to satisfy its obligations in WPP stock and/or in cash.

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

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

Compensation committee report continued

Compensation of 'executive officers'

The following tables set out 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 1998 (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 1997 and 1998. Incentive compensation paid in 1999 for performance in 1998 and previous years, is not included in these tables, consistent with US reporting requirements.

1998 executive remuneration

						Long Term Compensation			
Name	Principal position	Year	Salary $000	Bonus[1] $000	Other annual compen -sation[2] $000	Share options SARs and phantom shares[3] Number	Restricted shares Number	LTIP payments $000	All other compensation[4] $000
M S Sorrell	Group chief executive	1998	1,180	1,009	38	–	–	–	523
	WPP Group	1997	1,172	1,202	38	–	–	1,947	518
S Lazarus	Chairman/ Chief executive officer Ogilvy & Mather	1998	850	713	30	170,398	316,772	254	93
	Worldwide	1997	750	713	21	113,862	264,240	183	82
R Seltzer	President/ Chief executive officer Ogilvy Public	1998	400	200	25	80,187	96,800	–	8
	Relations Worldwide	1997	233[5]	–	25	86,752	–	–	2
C Jones	Chief executive officer J. Walter Thompson	1998	750	75	42	150,351	32,644	334	70
	Company	1997	575	380	42	341,586	22,586	290	66
H Paster	Chairman and chief executive officer	1998	550	275	17	77,180	5,990	90	111
	Hill and Knowlton	1997	550	275	17	83,499	–	–	111
P Barnard	Chairman	1998	330	223	17	47,782	9,927	157	96
	Kantar Group	1997	330	180	17	49,383	12,171	158	96

Notes

1 Represents short-term incentive awards paid during calendar years 1997 and 1998 in respect of the prior year's incentive plans.

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

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

4 Includes accruals during each calendar year under consideration, under defined contribution retirement and defined benefit retirement arrangements.

5 Mr Seltzer was appointed to this position on 9 May 1997.

Compensation committee report continued

Options granted in 1998

	Stock options, granted (number of shares)	% of total options granted by Company in 1998	Exercise price (£ per share)	Expiry date	Potential realisable value at assumed annual rates of stock price appreciation for option term 0% $	5% $	10% $
M S Sorrell	–	–	–	–	–	–	–
S Lazarus	170,398	2.18	2.93	Sep 2008	–	678,539	1719,551
R Seltzer	80,187	1.03	2.93	Sep 2008	–	319,311	809,151
C Jones	150,351	1.93	2.93	Sep 2008	–	598,709	1517,162
H Paster	77,180	0.99	2.93	Sep 2008	–	307,337	778,802
P Barnard	47,782	0.57	2.93	Sep 2008	–	190,271	482,158

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

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

	Shares acquired on exercise	Market value at exercise date ($)	Number of shares underlying unexercised share options, SARs and phantom stocks at year-end		Value of unexercised in-the-money stock options, SARs and phantom stocks at year-end ($)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
M S Sorrell	–	–	1,571,190	577,391	8,476,314	2,516,825
S Lazarus	–	–	473,678	837,541	1,979,016	1,800,873
R Seltzer	–	–	–	166,939	–	251,496
C Jones	–	–	213,302	695,938	1,033,623	1,248,581
H Paster	–	–	260,315	322,309	1,039,655	636,785
P Barnard	21,460	82,680	269,957	204,231	112,097	405,357

The value is calculated by subtracting the exercise price from the fair market value of the Company's ordinary shares on 31 December 1998, namely £3.78 and using an exchange rate of 1.6574 to £1.

Long-term incentive plan grants in 1998

	Performance period	Threshold $	Target $	Maximum $
M S Sorrell	N/A	N/A	N/A	N/A
S Lazarus	01 Jan 1998 - 31 Dec 2000	NIL	500,000	750,000
R Seltzer	N/A	N/A	N/A	N/A
C Jones	01 Jan 1998 - 31 Dec 2000	NIL	600,000	900,000
H Paster	01 Jan 1998 - 31 Dec 2000	NIL	275,000	412,500
P Barnard	01 Jan 1998 - 31 Dec 2000	NIL	165,000	247,500

Employee relations
Our success depends on the quality and performance of our people. The Group's employment policies are designed to attract, retain and motivate the most talented individuals and we invest significantly in communications, training and development programmes at both parent and operating company level as well as encouraging an ownership culture through WPP stock option plans.

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 irrespective of race, creed, colour, age, religion, sex, disability, sexual orientation, marital status, military service, national origin or ancestry.

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

Employee ownership
The Group's Worldwide Ownership Plan, introduced in 1997, has given more than 11,000 of our people a direct stake in WPP's financial success. Details of this Plan and other executive stock option plans can be found on page 87.

Employees own approximately 12% (1997: 11%) of the share capital of the Group.

Employee communications
WPP places great importance in keeping people in our operating companies informed about the Group's progress, activities and all matters affecting them and our business. Encouraging people to expand their knowledge of the Group is achieved through a number of communications initiatives:
- formal and informal meetings at the individual company level;
- monthly reports from the Group's chief executive to all people participating in short- and long-term incentive plans;
- distribution of the Annual Report, the Group Navigator, *The Catalog*, the Atticus Journal and WPP's global newspaper – *The WIRE* – to all companies worldwide;
- a monthly online newsletter – e.wire;
- regular communications on major WPP initiatives such as the Worldwide Partnership Program, BRANDZ™, the Atticus Awards, the WPP Fellowship Program and professional development workshops.

Professional development
The parent company runs a dynamic programme of cross-company forums, courses and workshops to inform, stimulate and inspire people in operating companies around the world. Some 2,200 Group professionals have now participated in a wide range of management, sector-specific and mind-stretching development workshops.

Most of our operating companies have well-established career development programmes, as well as regular appraisal processes such as 360 degree feedback. Research International, J. Walter Thompson and Coley Porter Bell in London were among the first in their sectors to gain the Investors in People accreditation for the training and development of their people. Many companies also offer formal student placement programme to nurture new talent within our business.

More information about our people programmes can be found in *The Catalog*, enclosed with this Annual Report.

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

Non-executive directors
Remuneration for non-executive directors consists of fees for their services in connection with the Board and Board committee meetings and where appropriate, for devoting additional time and expertise for the benefit of the Group. Non-executive directors are not eligible for membership of any Company pension plans, and do not participate in any of the Group's short- or long-term incentive programmes or in any of the Group's stock plans. With effect from March 1999 the Chairmen of the Audit and Compensation committees receive a part of their fees in ordinary shares of the Company.

The Chairman, Mr H Maxwell has a contract for a period expiring on 30 September 1999, subject to Mr Maxwell being able to terminate by giving not less than three months' notice. This contract may be renewed.

On behalf of the Board
S W Morten
Chairman of the WPP Group plc
Compensation committee
6 May 1999

About share ownership

Information for share owners

Share owners' register

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

Analysis of shareholdings at 31 December 1998

Issued share capital as at 31 December 1998: 766,477,562 ordinary shares.

Number of shares held	Number of owners	%	Total of shares	%
1 – 100	918	15.45	62,697	0.00
101 – 250	475	7.99	90,414	0.01
251 – 500	588	9.89	238,636	0.03
501 – 1,000	906	15.25	752,489	0.10
1,001 – 5,000	1,692	28.47	4,039,558	0.53
5,001 – 10,000	354	5.96	2,567,111	0.33
10,001 – 25,000	259	4.36	4,186,486	0.55
25,001 – 50,000	153	2.57	5,483,454	0.72
50,001 – 100,000	153	2.57	11,134,376	1.45
100,001 – 500,000	249	4.19	58,338,547	7.61
500,001 – 1,000,000	81	1.36	57,335,141	7.48
1,000,001 – 2,000,000	50	0.85	70,053,016	9.14
2,000,001 – 3,000,000	19	0.32	48,032,590	6.27
3,000,001 – 4,000,000	12	0.20	43,588,804	5.69
4,000,001 and above	34	0.57	460,574,243	60.09
Total	**5,943**	**100.00**	**766,477,562**	**100.00**

Share owners by geography	%
United Kingdom	**41**
United States of America	**46**
Asia Pacific, Latin America, Africa & Middle East and Continental Europe	**13**
Total	**100**

Share owners by type	%
Institutional investors	**85**
Employees	**12**
Other individuals	**3**
Total	**100**

Dividends

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

	1998	1997	1996	1995	1994
Interim dividend per ordinary share	**0.84p**	0.70p	0.556p	0.445p	0.385p
Final (1998 proposed) dividend per ordinary share	**1.72p**	1.43p	1.144p	0.865p	0.750p
Total	**2.56p**	2.13p	1.700p	1.310p	1.135p

American Depositary Receipts (ADRs)

Each ADR represents 10 ordinary shares.

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

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

ADR dividends

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

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

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

	1998	1997	1996	1995	1994
In sterling					
Interim	**8.4p**	7.0p	5.56p	4.45p	3.85p
Final (1998 proposed)	**17.2p**	14.3p	11.44p	8.65p	7.50p
	25.6p	21.3p	17.00p	13.10p	11.35p
In dollars [1]					
Interim	**13.9¢**	11.4¢	8.68¢	7.02¢	6.00¢[2]
Final (1998 proposed)	**28.5¢**	23.5¢	17.86¢	13.65¢	11.95¢[2]
	42.4¢	34.9¢	26.54¢	20.67¢	17.95¢

Notes

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

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

The figures opposite include a refund of the related UK tax credit less the UK withholding tax. The tax credit is one-quarter of the amount of the dividends on the ordinary shares. UK withholding tax is 15% of the total of the dividend and the tax credit. For 1998 the total of the declared dividends per ADR is 24.1p, the related tax credit per ADR is 6.0p and the withholding tax per ADR is 4·5p, giving a net UK tax refund of 1.5p per ADR and a total cash payment of 25.6p per ADR ie. a refund of 6.25% of the net dividend.

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.

For dividends paid on or after 6 April 1999, ADR holders will no longer be able to reclaim any part of the tax credit related to dividends. Under the terms of the US treaty, dividend payments will be reduced by a maximum withholding tax amount of 15% of the total of the dividend and the accompanying tax credit. The tax credit may not be reclaimed but the excess of the withholding tax (15% of the total dividend and the accompanying tax credit) over the tax credit (one-ninth of the dividend) is not collected and does not reduce the dividend payable.

The aggregate of the dividend and the tax credit will be treated as a dividend for US tax credit purposes. Any US taxation liability can be reduced by a claim for credit for the UK withholding tax actually suffered.

Financial calendar

- The 1998 final dividend will be paid on 12 July 1999 to share owners on the register at 11 June 1999.
- 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:

	1998	1997
Ordinary 10p shares	**365.8p**	269.5p

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

Access numbers

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

Information for share owners continued

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

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

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

Reclaiming income tax on dividends
Where dividends are paid in the form of foreign income dividends, no income tax is recoverable. Dividends not paid in the form of foreign income dividends are paid with income tax deducted at the lower rate (20%). The amount deducted is shown on the dividend tax voucher. If your total income for the year subject to tax is less than the gross dividend (net dividend plus tax credit) you may be entitled to reclaim part or all of the dividend credit. Those most likely to be entitled to a repayment of tax include married women not in employment, pensioners and children. If you think you may be entitled to claim, ask your local Tax Office for Form R40 (SP). The address can be found in the telephone book under 'Inland Revenue'.

Under the Finance (No 2) Act 1997 the tax credit that will be available to individual share owners resident in the UK in respect of dividends paid on or after 6 April 1999, will be reduced by 1/9th of the dividend, and tax credits will no longer be repayable to UK holders with no tax liability. Also with effect with 6 April 1999, individuals whose income is within the lower or basic tax rate bands will be liable to tax at 10% on the dividend income and the tax credit will continue to satisfy their income tax liability on UK dividends. The higher rate of tax on dividend income will also be reduced to 32·5% from 6 April 1999, which is intended to leave higher rate tax payers the same amount of after tax income as they would have received prior to the changes.

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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Recognition for last year's Annual Report

1998 ProShare Award for best Annual Report and Accounts in a FTSE 100 Company

1998 Stock Exchange and Chartered Accountants Annual Awards for Published Accounts: Highly Commended

1999 British Design and Art Direction Awards:
Silver Award to WPP Director, Jeremy Bullmore for his essay, *Polishing the Apples.*

Written and produced by WPP Group plc
Designed by Addison
Illustrations by Steven Appleby
Printed in the UK by Westerham Press, St Ives plc

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