WPP Group plc

Annual Report & Accounts 1990

Performance
for the year to
31 December 1990

'The purpose of all WPP Group companies is to add value and worth to clients' businesses through the management of the imagination'

Contents

Strategic Service Vision

To be *the* major multi-national marketing services company.

To service the increasingly complex and international needs of our clients – the major national and multi-national companies.

By providing a comprehensive and, where necessary, integrated range of media and non media marketing services of the highest quality to meet clients' strategic and tactical marketing needs.

Through a dominant presence, not only in the major consumer markets of the world but also in the smaller but more rapidly developing worldwide markets.

Through this focused operating strategy, and through a lean organisation and limited hierarchy, to provide stimulating career opportunities in all these areas for young, energetic and talented professionals who are primarily concerned with the qualitative aspects of their work.

At the same time, to seek to provide incentive and financial reward and minimise the separation between ownership and control, between manager and entrepreneur, and between *'hunter'* and *'farmer'*, by encouraging as many as possible to own a significant share of the company, either directly or indirectly.

Financial Strategy

To increase earnings per share through organic growth, including improvement in market share and profit margins.

To supplement this growth by acquiring small-scale companies that fit our strategic service vision and complement our existing functional and geographic structure, and that can be acquired on financial terms that enhance earnings per share.

To maximise the cash flow of the Company and to limit capital expenditure to that level required to maintain its long-term competitive position.

To reduce indebtedness to a level where preference and ordinary dividend payments can be resumed in the future.

Progress so far

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1986 the first full year following our change in strategic direction from manufacturing to services, saw the company build a dominant position in the United Kingdom in non-media advertising and develop a strong base in specialist communications in the United States

1987 brought substantial organic growth which together with major developments by acquisition concluded at the same time, positioned us to achieve our strategic objective more rapidly and more effectively

1988 was spent consolidating our operations worldwide and addressing functional or geographic weaknesses (opportunities) through 'in-fill' acquisitions or start-ups

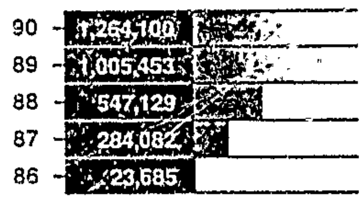
1989 saw further significant organic growth. In addition major acquisitions have now largely put in place the overall organisational structure required to meet the strategic service vision

1990 saw continued organic growth and in-fill acquisitions, especially in the first half. However the unexpectedly severe recession, which particularly affected the last quarter, resulted in a significant slow-down in major markets

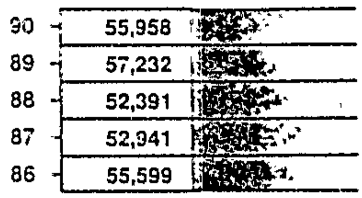
Results in Brief

	1990 £000	1989 £000	% Increase
Turnover	5,460,454	4,406,898	24%
Revenue	1,264,100	1,005,453	26%
Operating Profit	132,971	102,482	30%
Profit before Taxation	90,040	75,039	20%
Profit after Taxation	53,664	40,507	32%
Profit attributable to Ordinary Shareholders	32,920	29,768	11%
Basic Earnings per 10p Ordinary Share	78.1p	73.0p	7%
Fully diluted Earnings per 10p Ordinary Share	71.3p	71.2p	–
Basic Earnings per ADS	$2.79	$2.38	17%
Fully diluted Earnings per ADS	$2.55	$2.32	10%
Dividend per 10p Ordinary Share	[illegible]	24.2p	n/a
Dividend per ADS	[illegible]	$0.79	n/a
*Operating Margins	10.5%	10.1%	–
*Pre-Tax Margins	7.1%	6.8%	–

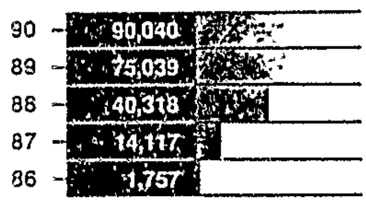
Revenue (£000)



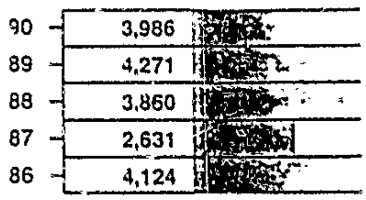
Revenue per Employee (£)



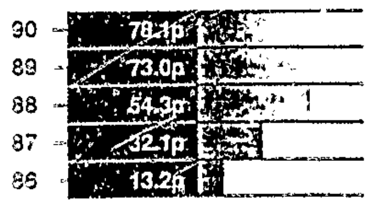
Profit before Tax (£000)



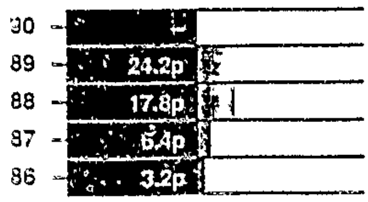
Profit before Tax per Employee (£)



Basic Earnings per Share



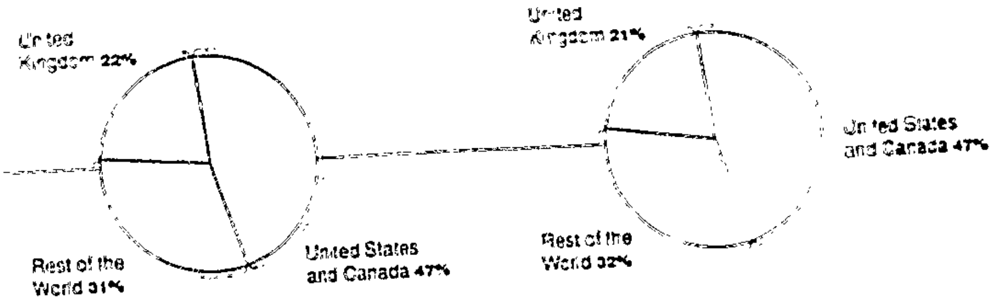
Dividend per Share



Financial Highlig

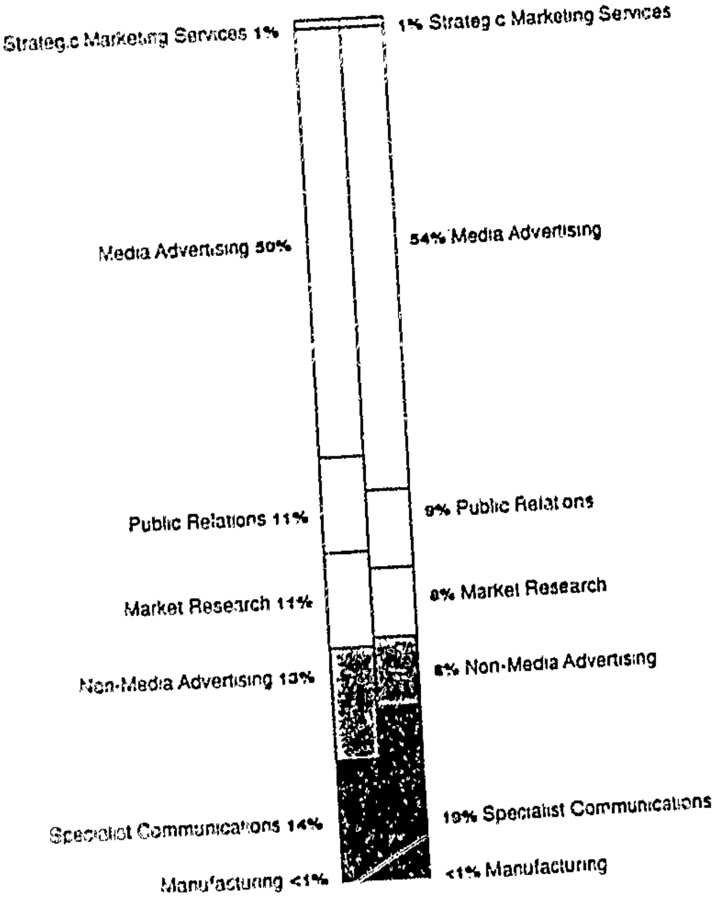
*Sales by Geography

*Operating Profit by Geography

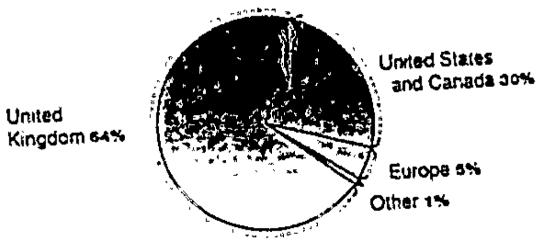


*Sales by Activity

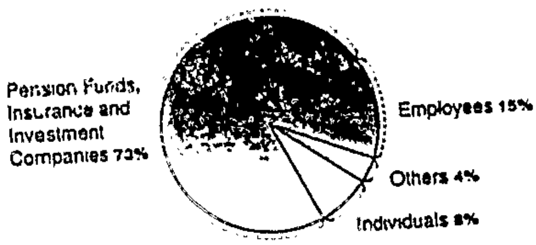
*Profit by Activity



Shareholders by Country



Shareholders by Type



Board Statement

Summary of Results

The Board of WPP is pleased to report the Group's results for the year ended 31 December 1990, the eighth successive year of growth.

In 1990, incorporating The Ogilvy Group for a full-year, revenues rose 26% to £1.264 billion from £1.005 billion. Profit before tax (after exceptional items which had no net impact on profits) was up 20% to £90 million from £75 million. Basic earnings per share rose by 7% from 73.0p to 78.1p. Fully diluted earnings per share were slightly up over last year at 71.3p per share.

In consideration of the Group's banking relationships, the Directors are not recommending a final dividend, as against 12.9p net last year. As a result no Ordinary dividend will be paid in respect of 1990, thus improving liquidity.

On a directly comparable basis operating margins rose from 10.1% to 10.5% reflecting an improvement in operating efficiency, though not as significant as had been desired.

On the same basis, Group pre-tax margins (after net interest paid of £42.9 million) increased from 5.8% to 7.1%, again reflecting improvement in operating efficiency and the helpful impact of the weakness of the US dollar on medium-term loan interest payments.

At the year-end the Group had net debt of £297 million compared with £325 million the previous year, and negative shareholders funds of £244 million as compared with £242 million last year.

The Group tax rate fell from 46.0% in 1989 to 40.4% in 1990. This is approximately the tax rate that the Board believes maintainable in the foreseeable future, in light of a second group-wide tax reorganisation following the acquisition of The Ogilvy Group.

Short Term Financial Objectives

The Group did not achieve its financial objectives for 1990. The JWT Group (J Walter Thompson Company, Hill and Knowlton and MRB Group) achieved a pre-tax operating margin of 10.1%, versus an objective of 11%, and The Ogilvy Group achieved 10.8%, against an objective of 12%.

The Group still believes that overall margin objectives of 12% for the JWT Group and The Ogilvy Group are appropriate, although they will probably take longer to achieve. The basis for this view relies in part on average margins of 10-15% achieved by competitive businesses at comparative operating group levels.

In addition, J Walter Thompson Company's concentration on packaged-goods clients, the scope for margin improvement opportunities at Hill and Knowlton, and The Ogilvy Group's geographical strengths in Europe and the Far East, and functional strengths in marketing services, such as direct, public relations, sales promotion and market research should result in better than average margins.

Since the acquisition of The Ogilvy Group in 1989 the Group has been seeking ways of reducing its 80% stake in Scali, McCabe, Sloves, Inc., in line with the prior commitment established by Ogilvy management. To improve liquidity, the Company disposed of its 22.9% stake in Abbott Mead Vickers plc in February for £7.7 million ($15.2 million), and is actively discussing the sale of its Scali, McCabe, Sloves, Inc. shareholding with interested parties. No other disposals are planned.

New Financing Arrangements

Following the start of the recession which particularly affected the United States and United Kingdom in the fourth quarter of 1990 and the Company's subsequent profits warning in November, the Company and its advisers, Samuel Montagu & Co. Limited, held discussions with its banking syndicate and other banks concerning the possibility of future covenant breaches of its then existing medium-term loans during 1991, given the increasing impact of the recession and uncertainties following the invasion of Kuwait.

Following completion of the Company's 1991 budgets in January, and continuing discussions with the banking syndicate and other lenders, new financing proposals were agreed in principle with a Co-ordinating Committee representing lenders and chaired by JP Morgan & Co. Inc., and a final version was circulated to lenders in late February. The loan document incorporating these proposals was signed in April 1991.

The agreement consolidates existing working capital, medium term loan, acquisition term loan and other uncommitted facilities into an enlarged committed medium term facility. With the exception of the original acquisition term loan, this facility is to be repaid or refinanced by June 1993. The $494.5 million acquisition term loan is to be repaid over four years commencing June 1993, such that repayment is scheduled to be completed within the original maturity of this facility.

Under the terms of the agreement, new financial covenants have been agreed and lending margins have been increased. The Company has however benefitted from the general reduction in interest rates such that the overall cost of borrowing is expected to remain lower in 1991 than in 1990.

WPP will pay to the lenders additional fees, part of which will be a success fee. The success fee is payable in cash after June 1993 and is calculated by reference to a notional pool of four million Ordinary shares. The amount of this fee is determined by the excess of the market value of the Ordinary shares at the time of notional exercise over the strike price, which is a minimum of £2.50 and a maximum of £4 50 The strike price is subject to upward adjustment by 1p for each $1 million by which the banking facilities have been reduced by June 1993, potentially reducing the fee payable The maximum success fee payable is £10 million, when the excess of the ordinary share price over the strike is £2 50 or more

The facility allows the Company the flexibility to settle earn-out payments in cash rather than by the issue of Ordinary shares In certain cases WPP already has a contractual right to make such payments in cash If the Company settles earn-out payments in cash rather than shares, of up to £31.2 million, and does not refund such payments prior to June 1993, a fee will be payable to the lenders The maximum fee payable is £4 million

The Directors of WPP believe that, following the agreement with its lenders, WPP's stronger financing arrangements will enable it to address the difficult conditions more effectively

Management

A number of Group personnel changes have recently been made, principally in order to reflect the greater emphasis on financial controls and cash flow management and the reduced level of acquisition activity by the Group These include the internal appointments of an additional Deputy Group Finance Director, a Director of Group Treasury and an Assistant Group Treasurer, reporting to the Group Finance Director In addition, there will be increased financial control responsibilities for a number of head office personnel

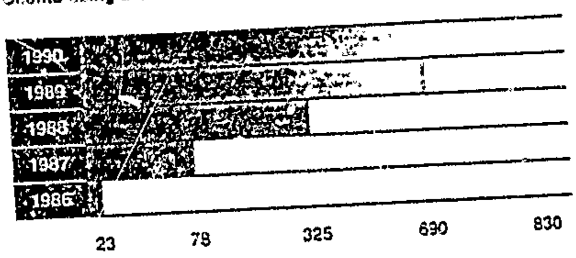
Dividends

In consideration of the Company's banking relationships, no 1990 interim dividend was paid in January 1991 and no final dividend in respect of 1990 will be paid Due to covenants given to the lenders there were insufficient distributable reserves in the Company for WPP to pay the Preference dividend in respect of its Convertible Preference shares which would otherwise have been due for payment on 30 April 1991. No dividends on the Ordinary shares will be capable of being declared or paid prior to the payment in full of any arrears of Preference dividends In the light of covenants given to the lenders it is unlikely that the Company will have sufficient distributable reserves to pay dividends on its shares until at least June 1993

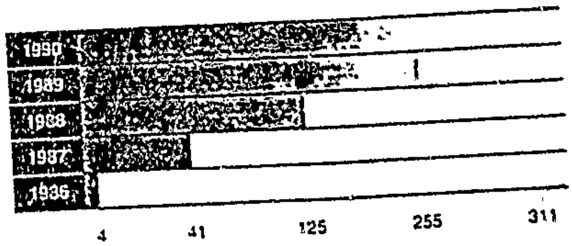
Future Prospects

In the first quarter of 1991 a number of significant new assignments have been awarded by clients totalling in excess of £31 million ($60 million) in revenue or £209 million ($400 million) in billings

WPP Cross-Sector Growth
Clients using 2 or more WPP Service Sectors



WPP Cross-Sector Growth
Clients using 3 or more WPP Service Sectors



The first quarter of the year continues the pattern established at the end of last year. Functionally, advertising and public relations have been most affected by the recession and the Gulf War. Strategic marketing services, market research, some design, sales promotion and audio-visual companies, and specialist communications companies such as direct marketing and healthcare continue to perform well. Retail design, real estate advertising, recruitment advertising and some areas of sales promotion continue to suffer.

Geographically, conditions in the United States, United Kingdom, Japan, Canada, Brazil, Scandinavia, Australia and New Zealand remain difficult, with Continental European countries such as France, Germany, Spain, Holland and Austria, together with South East Asia performing better.

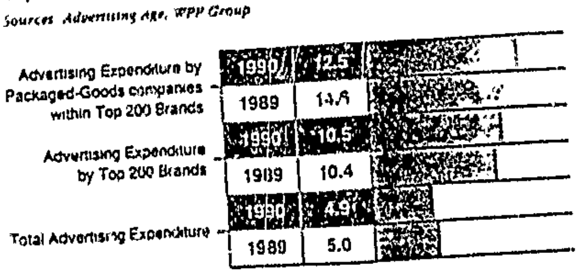
Very few clients have indiscriminately cancelled their expenditures, and packaged-goods companies continue to exhibit greater resilience, whilst financial services and retail show greatest vulnerability. In 1990, the top packaged-goods advertisers increased their overall media spending by approximately 12.5% against a much lower market average.

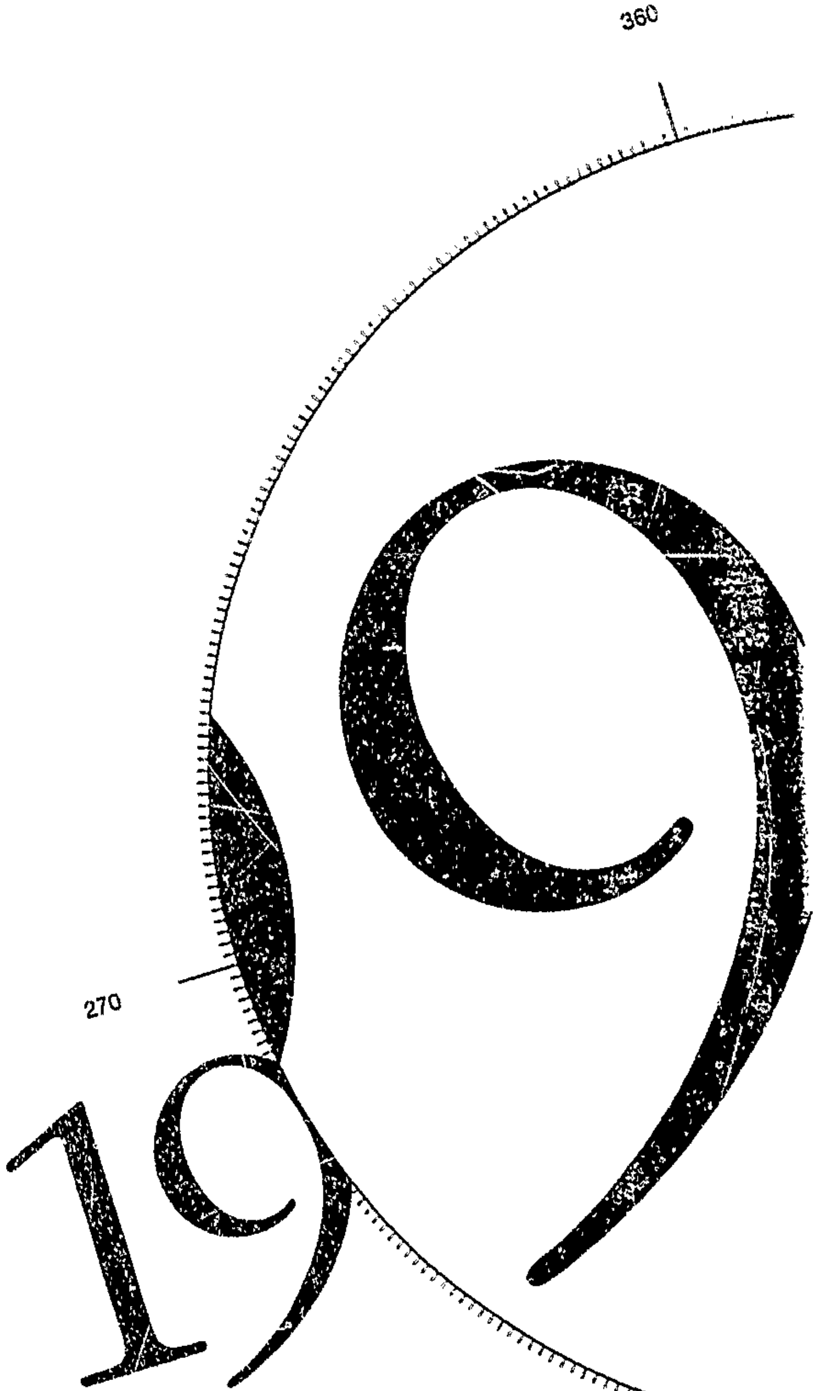
Given current uncertainties, it is still too early in the year to predict the outcome with a great deal of confidence. However, the Group continues to add significant new business, and retain business under review. Despite the prospect of a difficult year, your Board remains confident in its strategy of providing a comprehensive range of marketing services to both multi-national and national companies.

Martin Sorrell

Martin Sorrell
Group Chief Executive

Growth in Advertising Expenditure by the Top 200 Brands in the United States (%)
Sources Advertising Age, WPP Group

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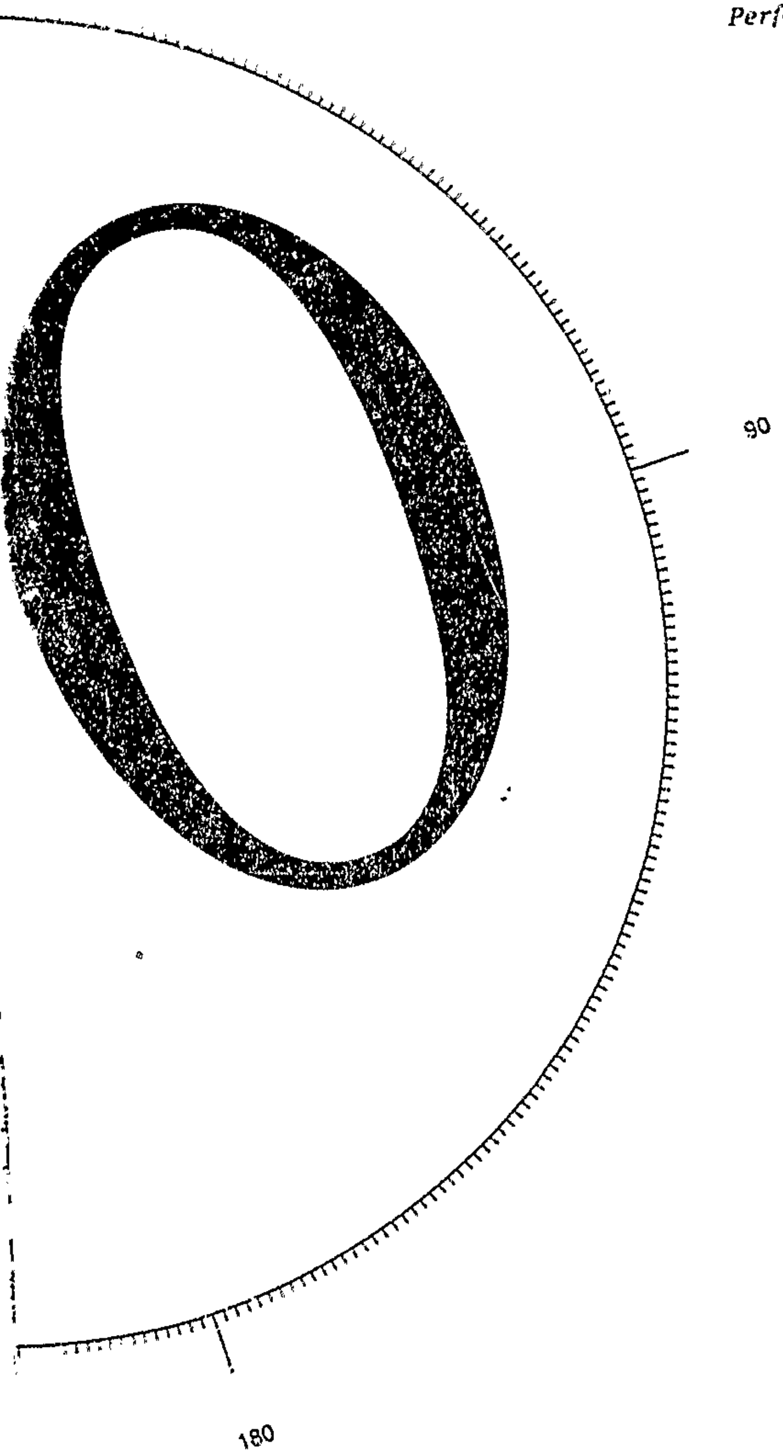
Performance



Despite the Group's failure to achieve its pre-tax profit objectives, primarily due to revenue shortfalls in the fourth quarter, satisfactory performances were achieved in strategic marketing services, market research and in some design, sales promotion and specialist communications companies.

Geographically, stronger performances were registered in Continental Europe and South East Asia. In 1990 the Group added net new business revenues of over £141 million ($252 million) equivalent to net billings of £939 million ($1,679 million).

The Group achieved organic growth rates of approximately 10% in strategic marketing services, under 5% in media advertising, 10-15% in public relations and market research, 5-10% in non-media advertising and specialist communications, and 10% in manufacturing.

Media Advertising

None [illegible] the Group's [illegible] media advertising agency networks reached [illegible] last year. [illegible] Ogilvy & Mather [illegible] Worldwide generated net new [illegible] billings [illegible] over £372 million ($665 million) versus [illegible] million ($[illegible] million) in 1989 [illegible] of Ogilvy & Mather Worldwide which [illegible] Weber, Ogilvy & Mather Direct, [illegible] & Ma[illegible] Public Relations, Adams & Rinehart [illegible] Promotion [illegible] in South East Asia did achieve their budgeted targets. Functionally, Ogilvy & Mather Direct also had a good year, achieving their objectives on a worldwide basis.

At the year end, Ogilvy & Mather Worldwide advertising agency offices in Los Angeles and Detroit in the United States and in France, Germany, Austria, Belgium, Spain, Portugal, Turkey, Hungary, Argentina, Malaysia, Singapore, Thailand, Taiwan, China, Indonesia, India and South Africa were ahead of their individual budgets; as were Direct offices in New York and Chicago and Eicoff in Chicago, and in Germany, Austria, Belgium, New Zealand, Spain, Malaysia and Thailand; as were public relations offices at Adams & Rinehart and Ogilvy & Mather Public Relations in Los Angeles in the United States and in the United Kingdom, France, Adams & Rinehart in Belgium, New Zealand, Malaysia, Singapore, Thailand, Hong Kong and Taiwan; as were sales promotion offices in Holland, Germany, Belgium, Hong Kong, Singapore and Thailand.

In 1990 the operations of SAGE, the New York-based retail marketing services consultancy, continued to disappoint and action has been taken to reorganise this group of companies.

J Walter Thompson Company added net billings of over £189 million ($338 million). This compares with a net gain of £289 million ($5[illegible] million) in 1989. Regional operations in the United States, Europe and

South East Asia met their budgets. J Walter Thompson Company offices in Atlanta, Detroit, New York (including Direct and Healthcare) and San Francisco in the United States, as well as in the United Kingdom, Italy, Spain, Austria, Holland, Portugal, Denmark, Greece, Turkey, Argentina, Mexico, Hong Kong, Singapore, Thailand and Malaysia were ahead of their individual budgets.

Scali, McCabe, Sloves, Inc. was down against budget for 1990 primarily due to the performance of New York. Only Spain, France, Germany and Mexico reached their budgets.

Conquest Europe handled over $210 million of media advertising through 12 offices in 12 countries and exceeded its objectives in Belgium, Germany, Holland and Switzerland.

Public Relations

Hill and Knowlton experienced a significant softening of revenues in the fourth quarter. Although net new business revenues of £15 million ($28 million) were generated, pre-tax profits for the year were approximately the same as 1989. Profit centres in Washington (including Timmons), Atlanta, Los Angeles, Denver and Seattle in the United States and in France, Holland, Spain and Singapore achieved their objectives.

Market Research

MRB Group ended the year well ahead of expectations with particularly strong performances at Simmons, Winona and MRB UK

1 — Strategic Marketing Services
Social, economic and market forecasting development of corporate strategy econometric modelling, total environmental changes tracked through regular publications

2 — Media Advertising
The planning, production and placing of advertising for multi-national and national advertisers in all categories

3 — Public Relations
National and international corporate financial and marketing communications crisis management, public affairs and management counselling

4 — Market Research
Consumer, media, corporate communication and policy research; advertising research, pre-testing, tracking and evaluation; design and management of international market studies new product development and testing

5 — Non-Media Advertising

Graphics & Design
Architectural services, exhibitions; furniture, industrial product and environmental design, packaging, corporate identity, marketing and corporate literature

Incentive & Motivation
Business seminars and entertainment, incent strategies and programmes; conference and travel management

Sales Promotion
Consumer and trade promotions, point-of-sale, coupon redemption; self-liquidators, on-pack offers

Audio Visual Communications
Corporate and training videos, exhibitions ar conferences, equipment installation, servicin and hire; presentations, product launches a trade shows, production, editing and trans

6 — Specialist Communications
Ethnic, business-to-business, corporate, entertainment, pharmaceutical, travel recruitment, retail and flotation advertising, annual reports, direct mail and direct marketing, investor communications corporate identity

Millward Brown also performed strongly against budget in both the United Kingdom and the United States.

Research International, although not reaching its targets, more than doubled its profits over the previous year. Both New York and Boston in the United States and the United Kingdom, France, Holland, Spain and Australia reached budget.

Strategic Marketing Services, Non-Media Advertising and Specialist Communications

Several of our companies in these areas performed particularly well against budget – including The Henley Centre, Anspach Grossman Portugal, Seiniger, Thomas Ferguson Associates, International Vacationers, EWA, Scott Stern, Business Design Group and Coley Porter Bell.

Manufacturing

Our manufacturing division had a record year with profits of over £0.? million.

Business Mix and Growth

The Group now services over 830 major national or multi-national clients in two or more services (as opposed to 690 the previous year) reflecting the increasing opportunity for cross-referral between activities both nationally and internationally. The Group works ... 311 clie..ts in three or more services (as opposed to 255 at December 1989) with 149 clients in five or more countries (as opposed to 129 at December 1989). The Group now services over 300 of the Fortune 500 companies and employs 22,904 people in 635 offices in 60 countries.

Acquisitions During 1990

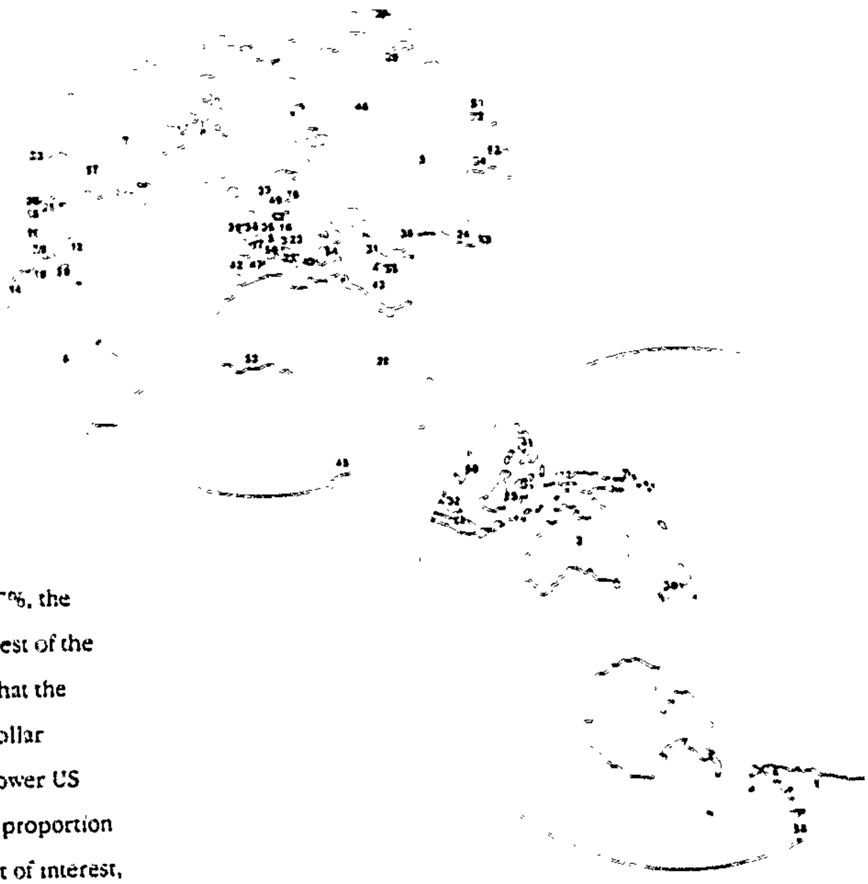
These results include first time contributions from five internally financed in-fill acquisitions that addressed various strategic opportunities and have now strengthened the Group's activities in its specialist communications activities in healthcare in the United States, its public relations and public affairs activities in Scandinavia and Washington, its media advertising activities in Belgium, and its market research activities in Australia.

Sales and Profits by Function

Following the latest acquisitions, on a pro-forma basis, 1% of Group sales and 1% of operating profits are now represented by strategic marketing services, 50% and 54% by media advertising, public relations represents 11% and 9%, market research 11% and 8%, non-media advertising 13% and 8%, and specialist communications 14% and 19%. Manufacturing still accounts for just under 1% of both.

Sales and Profits by Geographical Area

On the same pro-forma basis, operations in the United



States and Canada account for 47% and 47%, the United Kingdom 22% and 21%, and the Rest of the World 31% and 32%. It should be noted that the Group's borrowings, which are mainly dollar denominated and have benefitted from lower US interest rates, have tended to reduce the proportion of US dollar profits. Including the impact of interest, operations in the United States and Canada account for 26%, the United Kingdom 29%, and the Rest of the World 45%, of pre-tax profits.

Cross-Referrals

Cross-referral opportunities continue to develop. In 1990, 18% of new business revenues or $45 million out of a total of $252 million came from this activity. This compares with 17% of new business revenues or $41 million out of a total of $243 million in 1989. Moreover, potential revenues of over $73 million were generated in 1990 through cross-referrals, which is equivalent to 30% of net new business.

This compares with $68 million in 1989 which was equivalent to 29% of total new business, again an improvement. Greater attention is being given to "converting" these new business opportunities, and it is hoped that the conversion ratio will increase from the current 62% and last year's 61%.

WPP Worldwide

1 Argentina
2 Australia
3 Austria
4 Bahrain
5 Belgium
6 Brazil
7 Canada
8 Chile
9 China
10 Colombia
11 Costa Rica
12 Denmark
13 Dominican Republic
14 Ecuador
15 El Salvador
16 Finland
17 France
18 Germany
19 Greece
20 Guatemala
21 Honduras
22 Hong Kong
23 Hungary
24 India
25 Indonesia
26 Ireland
27 Italy
28 Japan
29 Kenya
30 Korea
31 Kuwait
32 Malaysia
33 Mexico
34 Myanmar
35 Netherlands
36 New Zealand
37 Norway
38 Pakistan
39 Panama
40 Peru
41 Philippines
42 Portugal
43 Saudi Arabia
44 Singapore
45 South Africa
46 Soviet Union
47 Spain
48 Sri Lanka
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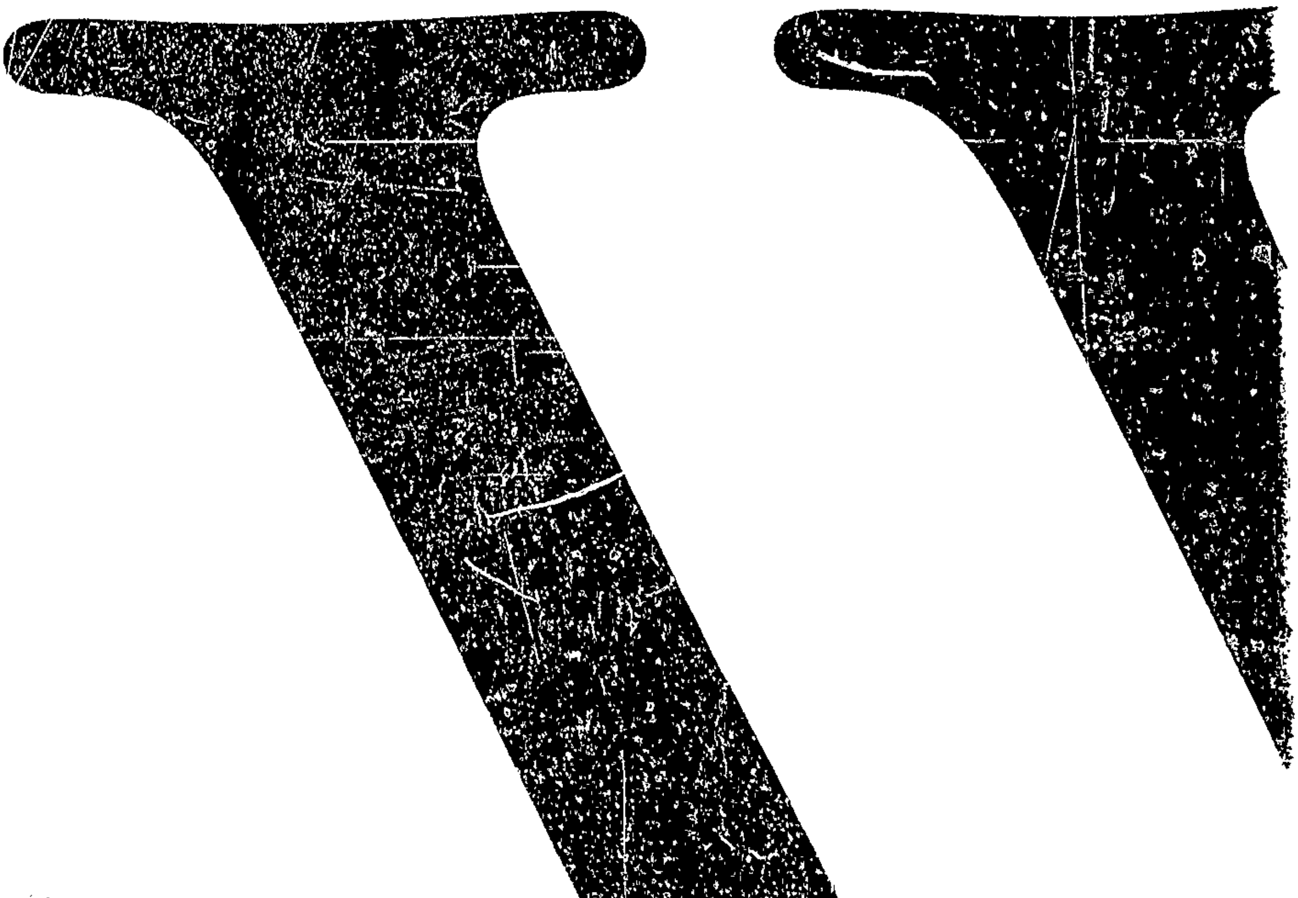
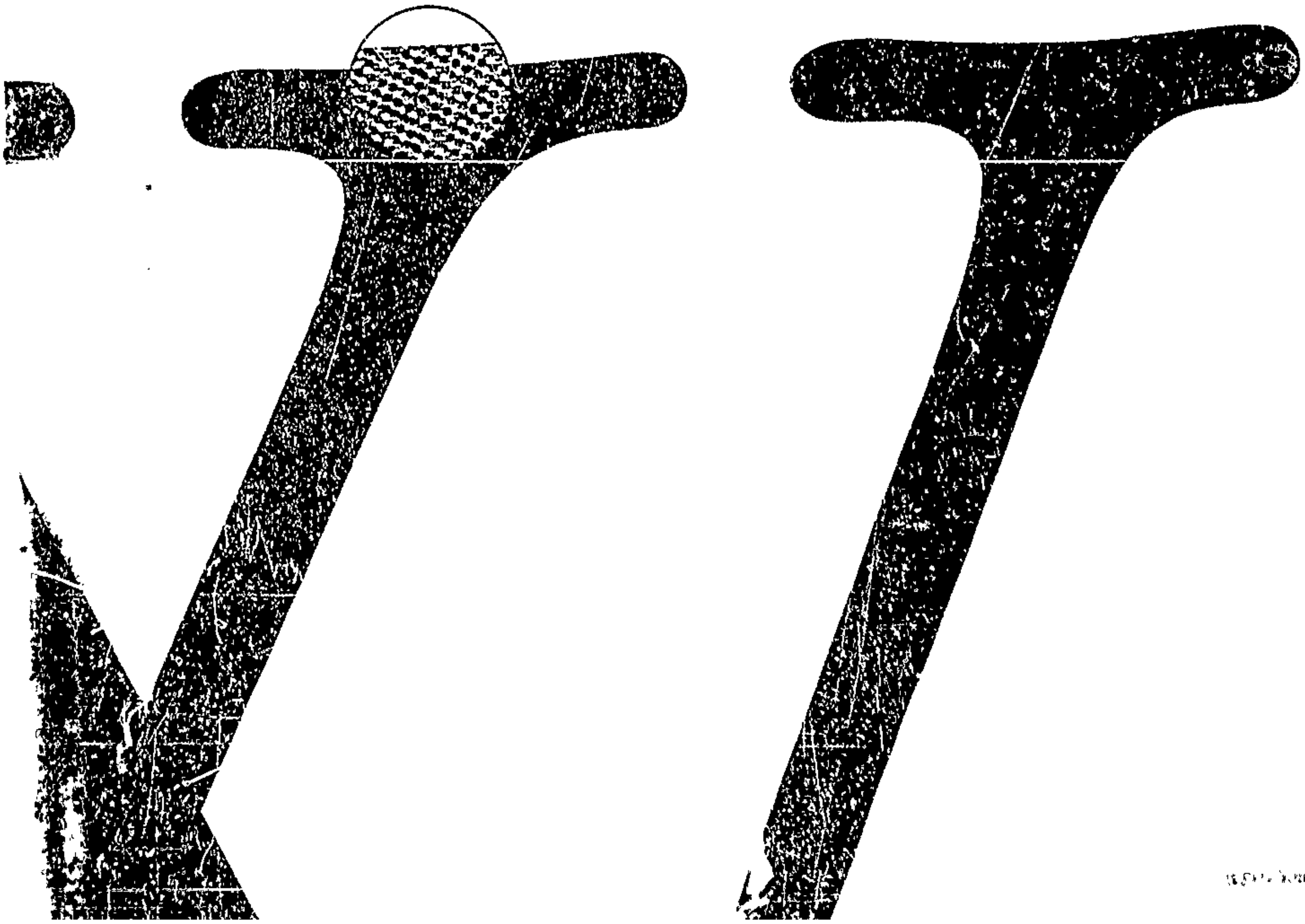
51 Taiwan
52 Thailand
53 Togo
54 Turkey
55 United Arab Emirates
56 United Kingdom
57 United States
58 Uruguay
59 Venezuela
60 Vietnam



Worldwide Trends in the Marketing Services Industry

Despite the recession of 1990, the underlying trends within the marketing services industry on which the WPP strategy is based continued to develop

Analysis •••

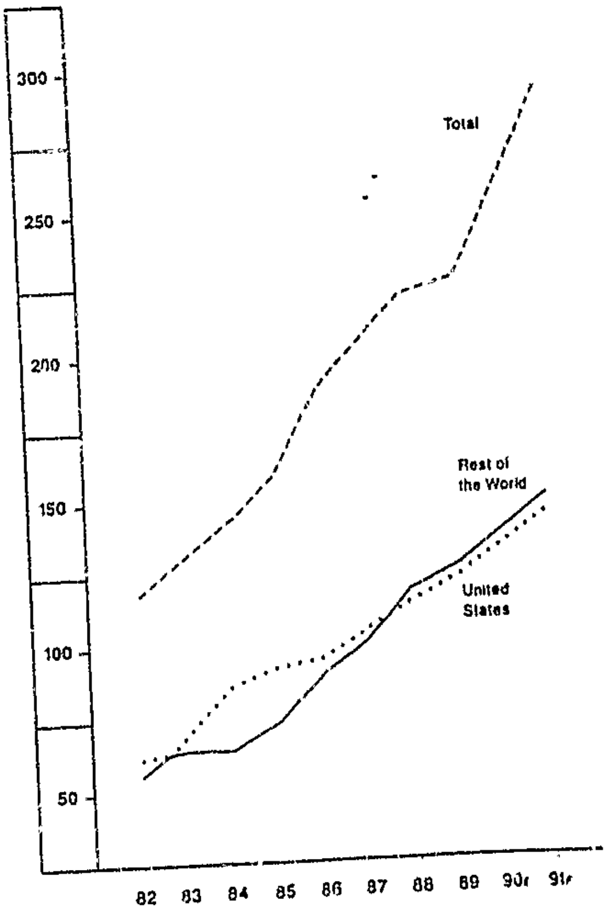


Worldwide Trends in the Marketing Services Industry

Media advertising grew at a faster rate outside the United States than within, and worldwide spend on non-media advertising grew faster. In addition, packaged-goods advertisers were less inclined to cut their budgets in the face of economic pressures.

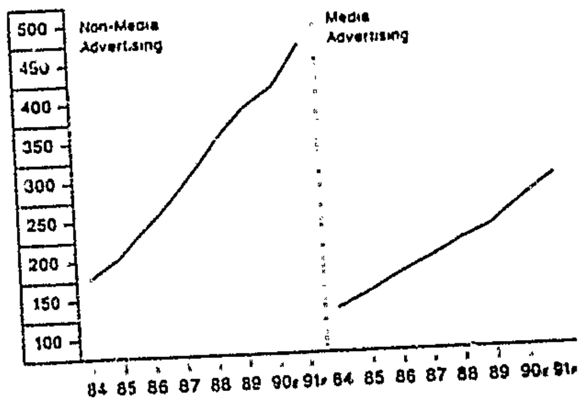
Worldwide Media Advertising Expenditure ($bn)

Source WPP Group



Growth in Worldwide Marketing Services Expenditure 1984-1991 ($bn)

Sources J Walter Thompson Company Ogilvy & Mather Worldwide WPP Group



The marketing services industry is worth more than $690 billion, and has been growing at approximately 10% per annum. This market can be divided between media advertising, ie, advertising on television, in newspapers and magazines, on radio and outdoor; and those other means that companies use to communicate with their markets and audiences – public relations; market research; non-media advertising, which includes graphics and design, incentive and motivation, sales promotion and audio visual communications, and specialist communications. Media advertising accounts for about 38% of the world market ($265 billion), and has been growing at between 8% and 12% per annum. The less visible non-media portion is about 62% ($430 billion) and growing faster at about 9%-14%.

Worldwide Marketing Services Expenditure 1990 ($bn)

Sources: Latest estimates from industry associations, government associations, WPP Group

	USA	UK	France	Germany	Japan	Rest of the World	Total
Media Advertising	129.5	14.8	10.3	12.7	34.2	64.0	**265.5**
Public Relations	14.1	1.7	0.6	0.8	3.2	1.2	**21.6**
Market Research	2.4	0.8	0.5	0.5	0.6	1.6	**6.4**
Non-Media Advertising							
Graphics & Design	17.2	5.6	1.4	1.7	7.0	2.4	**35.3**
Incentive & Motivation	2.6	0.7	0.2	0.4	0.8	1.2	**5.9**
Sales Promotion	139.0	16.0	9.9	10.6	37.7	58.0	**271.4**
Audio Visual & Video	3.0	0.7	0.5	0.6	0.7	1.0	**6.5**
Specialist Communications							
Real Estate	1.2	0.2	0.1	0.3	0.6	0.4	**2.8**
Financial Communications	1.4	0.5	0.1	0.2	0.7	0.1	**3.0**
Ethnic	1.4	0.2	0.1	0.1	0.1	0.2	**2.1**
Public Affairs	5.1	1.2	0.4	0.5	1.2	0.5	**8.9**
Direct Mail	23.7	4.5	2.2	2.0	7.4	9.6	**50.3**
Recruitment	4.2	0.6	0.2	0.7	0.9	1.3	**7.9**
Healthcare	3.7	0.7	0.4	0.5	1.0	0.6	**6.9**
Total	**348.5**	**48.2**	**26.9**	**32.7**	**98.1**	**142.1**	**694.6**

Size and Growth Rates of UK Marketing Services 1980 – 1991

Sources: Advertising Association, Post Office, Keynote, DMPA, ISP, Hollis, IPR, PRCA
Latest available agency estimates for 1990 and forecasts for 1991

	Media Advertising		Sales Promotion		Public Relations		Direct Marketing	
	£bn	%	£bn	%	£m	%	£m	%
f1991	7.96	(3%)	9.32	5%	1,380	10%	925	11%
e1990	8.20	2%	8.88	8%	1,255	13%	830	13%
1989	8.00	10%	8.25	13%	1,110	17%	735	14%
1988	7.26	17%	7.30	12%	950	16%	645	12%
1987	6.18	12%	6.53	7%	816	15%	575	11%
1986	5.50	24%	6.10	11%	708	18%	517	10%
1985	4.44	9%	5.50	10%	600	20%	470	9%
1984	4.06	13%	5.00	25%	500	16%	430	6%
1983	3.58	14%	4.00	14%	430	23%	405	9%
1982	3.13	11%	3.50	17%	350	27%	370	19%
1981	2.82	10%	3.00	11%	275	38%	310	3%
1980	2.56	20%	2.71	12%	200	23%	300	15%
10 year historic growth rate	**12.3%**		**12.6%**		**20.2%**		**10.7%**	
5 yrs. historic growth rate	**13.1%**		**10.1%**		**15.9%**		**12.0%**	

Marketing Services *continued*

The Pressures Facing our Clients

Marketing problems are becoming increasingly complex. The spread of operations, both geographical and functional, has grown dramatically; product life cycles are shorter; brands demand constant investment, there is pressure on costs, and the retail sector is now extremely powerful. The demand for marketing services is increasing as a response to these pressures. Our clients, chiefly national and multi-national consumer goods companies, are committed to developing the sales and market shares of their brands. They are aware of the risks and costs attached to recovering a lost position [illegible]r packaged-goods companies do not pay signi[illegible] earnings multiples for firms with well-developed brands in order then to reduce marketing expenditures and devalue the [illegible] assets they are acquiring – intangible though these maybe.

The same iron law – ie, that premium prices in the corporate market mandate premium marketing support for brands – also applies to leveraged buy-outs, where any buyer would have to maintain or increase brand spending to preserve the value of their considerable investment. Nor is the emphasis on buying brands likely to go away, as continued acquisitions – among both packaged-goods companies and capital-goods companies – continue to demonstrate. In addition, key advertising sectors such as the automobile industry face increased competition.

The need to add value has been reinforced by clients' espousal during the 1980s of "low-cost producer" strategies, reducing headcounts and generally forcing themselves to become lean and mean.

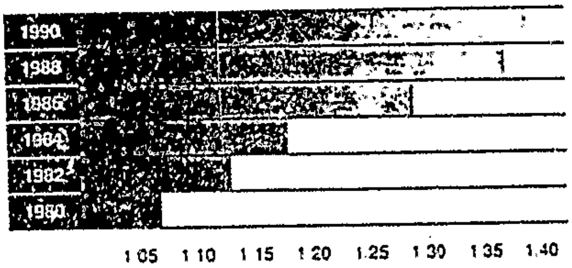
However, there is a limit to how much cost can be cut before product quality is jeopardised. On the other hand, in theory at least, revenues and margins can be increased indefinitely by adding value. As a result, we expect to see increased spending on brand development.

The dominance of retail organisations, notably in the grocery trade, means that such an imbalance of power can only be redressed by spending on marketing services, particularly on media advertising. However, inside the stores the battleground has shifted for other reasons as well. The consumer is visiting stores more frequently and making more impulse or unplanned purchases. Retail stores, such as supermarkets, are growing in size, stocking more goods, installing scanning equipment, increasing opening hours, and larger stores are increasingly dominating the market. In the background, network television audiences continue to decline and the proportion of women working has steadily risen.

The combination of scanning technology and computerised distribution systems have resulted in

US National Advertising Expenditure as % of GNP 1980–1990

Source: WPP Group



the growth of "slotting allowances" where retailers ask fees from manufacturers for featuring their products. In addition, scanning technology enables the retailer to build a database of its customers.

Finally, retailers are creating their own more profitable higher-priced private label brands and discounting national brands.

Trends in Media Advertising

Growth in media advertising has been stimulated by a number of factors. It has proven to be the most reliable method of mass communication, reaching the largest number of consumers in the fastest way, and at the lowest cost. It is therefore the best vehicle for brand development and support, and an effective means of combating increasing competition from retailers' own brands

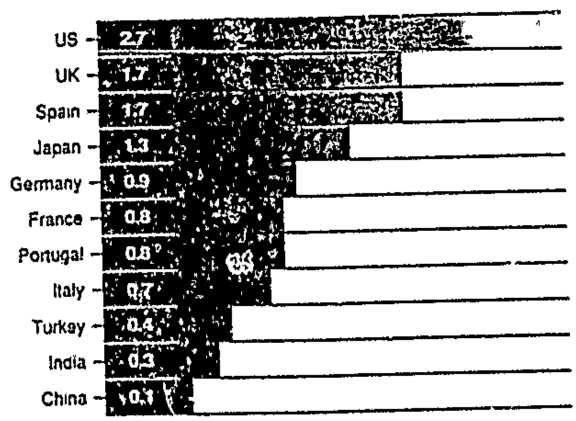
As a result, the United States market for media advertising is today worth almost $130 billion (around 49% of the worldwide market).

However, double-digit growth in the United States in the early 1980s has slowed in the last five years to single digits. In 1990 it was approximately 5% in money terms against an inflation rate of 5.5%.

Yet outside the United States, media advertising expenditure is still increasing, in 1990 by over 11% This reflects two factors. Firstly, in the rest of the world, levels of media advertising are half those of the United States. Secondly, media deregulation – particularly in television – has stimulated primary demand for TV advertising. Double-digit growth in recent years in the United Kingdom, France, Italy and Spain reflects those developments, and high-growth markets for the next five to ten years will be Continental Europe, South-East Asia and Latin America. South-East Asia, with entrepreneurial people and stimulating governmental influences, may well prove to be a more attractive marketplace than Eastern Europe.

Total Advertising as % of GNP 1990

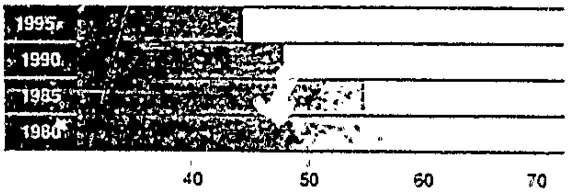
Source: WPP Group latest estimate OECD



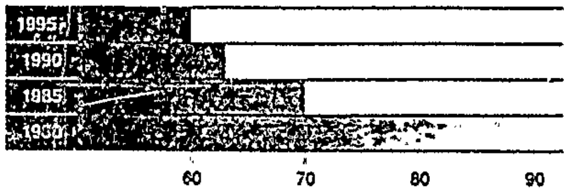
Background for Non-Media Advertising

For several years non-media advertising has grown faster than media advertising. This is due to four factors, two short-term, and two long-term.

Share of TV Advertising (%)
US TV Networks
Source: Wilkofsky Gruen, DRI



Share of Prime-Time Audience (%)
US TV Networks
Source: Wilkofsky Gruen, DRI



Short-Term

Low rates of inflation

Until very recently, declining rates of inflation have made it difficult for our clients to pass on to the consumer increasing media costs, particularly in television.

Over the last ten years, television advertising costs have increased significantly faster than the cost of living in all five of the major markets, which account for over 75% of worldwide advertising.

Fragmentation

At the same time network audiences have fallen, and because of the increasing number of channels, audiences have "decomposed" through zipping or zapping or video-cassette rental or boredom induced by low-quality programming. Although the networks are making increasingly innovative attempts to promote their programming, network TV has also suffered from the competitive attacks of cable television, syndicated programming and independent stations.

The result is that although network TV remains an effective tool for creating brand awareness it is not enough on its own.

Long-Term

There are also two long-term – and therefore more fundamental reasons – why non-media advertising is growing faster than media advertising.

Difficulty of measurement

Many attempts have been made to solve (posthumously) Lord Leverhulme's famous dilemma about which half of his advertising budget he was wasting, by split campaigns, buried offers, pre-testing, day-after recall, area testing and other more innovative methods; but the results – though they can demonstrate effectiveness – are not scientifically precise.

Other types of marketing services expenditures, such as sales promotion or direct mail, are more easily and effectively targeted.

Generally, there now seems to be a belief that a mix of media and non-media advertising is most effective.

Technological advance

The second reason for faster non-media advertising growth is technological advance. The effect of the increasing use of computers, and the development of mailing and telemarketing techniques has been to fragment the market. And further market-shaking developments are on the way, such as optical fibre.

Interactive TV and personalised commercials are not far off. Personalised magazines are already here, albeit on a small scale.

Growing technological sophistication has fragmented the printed medium, as well as television, with changes in editorial and advertising content adjusted to the background of the reader.

Advertisers are now looking for economies of scale in dispersed markets.

Response of the Media

There has been little evidence to contradict these trends until recently. In the latter half of 1989 and through 1990, major multi-national and national packaged-goods advertisers tended to maintain or increase their expenditures against the market average.

Whether all the vehicles of the fragmented media will be able to attract the necessary advertising is debatable. The main effect of satellite competition, at least in the short-to-medium term, may paradoxically be to reinvigorate land-based broadcasting organisations, much as commercial TV did to the BBC in the 1960s.

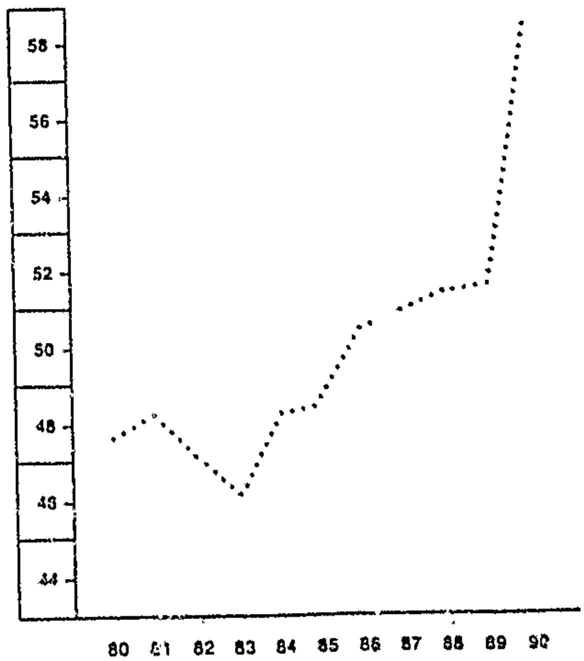
In addition, forecast segmentation of audiences in the 1990s indicates broader categories rather than narrower ones, where mass media may be more effective.

Response of the Advertising Agencies

Agency consolidation

Non-media alternatives to advertising have received a boost from the merging of agencies, either physically or under a corporate umbrella. Where consolidation has taken place, such mergers have disturbed existing relationships, with some clients who have perceived conflicts of interest

Top Ten Advertising Agencies Worldwide
Market Share of Ad Age Top 500
1980-90 (%)
Source Advertising Age



The trend to consolidation seems to show little sign of abating, largely because of continuing client rationalisation and the increasing pressure on agency compensation that results. Only the direction from which the pressure comes seems to have changed – from the United States, France and Japan, where the cost of capital is lower, rather than the United Kingdom.

Concentration on concentration has been driven not only by the trend among clients, but also among media owners.

The concentration strategy is based not only on cross-ownership of media, enabling media owners to offer advertisers a complete media schedule, but cross-promotion as well.

Some people may dismiss these developments as entrepreneurial idiosyncrasies. The fact is few are immune from their implications.

Taking all these trends into account, it seems inevitable that the marketing services industry will eventually be dominated by four or five major multi-national companies and that there will continue to be further consolidations, for example, among the 40 or 50 companies that make up the quoted United Kingdom marketing services sector. Most of these firms are too small to compete on a multi-national or multi-functional basis.

Client conflict

An issue frequently raised is that of conflict of interest between competing clients within the newly-merged agencies. This has rarely been a problem in other industries such as management consultancy, investment banking and auditing. In Japan, agencies often specialise in clients in one category.

There are increasing signs that clients are re-assessing the position, partly because major packaged-goods companies are extending the categories in which they compete, which makes conflict harder to avoid; and partly because there are relatively few conflict-free multi-national agencies to choose from.

Compensation

Another issue, often mentioned by consultants, is that of a reduction in the level of agency compensation. It is not only the agencies who argue that this maybe a false economy. It may even be an illusion. When agency income is geared not only to advertising spend but, in addition, to results, this can bring great benefit to both sides. Luckily (for agencies) some of the biggest advertisers in the world seem to be thinking along similar lines. Moreover, the increasing fragmentation of the media can only reinforce the importance of choosing the right media for the client, thus giving an opportunity for the agency to add greater value.

Media buying

Centralised media buying has become increasingly interesting to clients as a result of the escalating cost of television advertising. J Walter Thompson Company and Ogilvy & Mather Worldwide are members, together with Omnicom, of The Media Partnership, a joint media-buying operation, which is already operating in four European countries. Interest in such arrangements still tends to be more European than American. While the basic proposition behind mega-media outfits is sound – that is the more cost-effective purchase of media, particularly television – there are several areas of risk.

First, who pays for the media-buying unit? Although it creates greater efficiency for the client, a separate unit is a cost to the agency: should that cost be set against the discount negotiated?

Second, how are issues of conflict to be dealt with? Not necessarily the classic issues, where, for example automobile manufacturer A competes with B, but where A outspends B, say 2 to 1 and yet receives the same level of discount. Is A subsidising B?

Third, if you separate media-buying from planning, and create central buying units for two or more agencies, does this effectively hamstring the participating agencies by removing key functions from their operations? Some agencies have built their reputations, at least in part, on their media capabilities.

Fourth, the successful precedents have tended to be media brokers rather than media buyers, and ultimately clients may well demand the discount or assume the brokerage risk themselves. "Transparency" is the new French buzz-word.

Finally, such media-buying units may lead to the "unbundling" of agency services, which in turn will result in still greater pressure on compensation. Clients may well decide they can do the job themselves.

But perhaps the major issue is that media-buying or indeed brokerage is a commodity service, not a value-added service.

Success in media-buying is determined by buying-power and financial resource, not by the management of the imagination. This means that, in the long-run, though media choice and strategy may be very much an agency's business, media buying, in the sense of dealing, may not. It is a service that should be offered to clients in order to help them manage their costs more effectively, but it is not a high added-value service of the kind that is an agency's focus.

It is against this background that WPP Group continues to build a comprehensive group of companies, each with its own specialist skills, able to respond to clients' specific needs, and to serve them on a co-ordinated basis.

Gro

WPP Group Companies

On 1 January 1991, there were 22,094 people working for WPP Group companies, and no more than 47 professionals working for WPP Group plc itself.

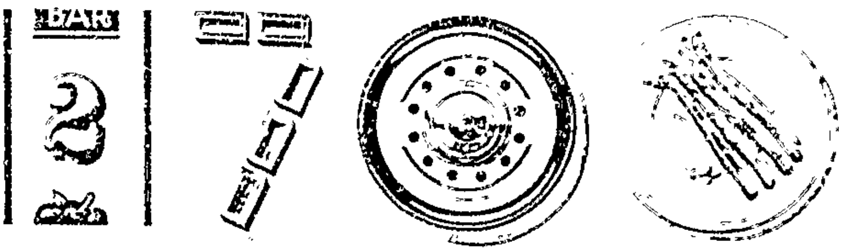
These figures give a clear indication of the relationship of the holding company to its operating elements.

WPP Group companies exist to serve their clients. Each company excels in at least one marketing services skill and their objective in all cases is to add worth and value to their clients' goods and services through the management of the imagination.

6500

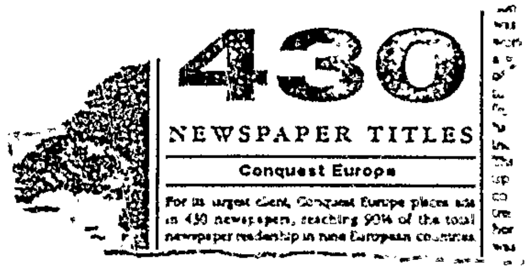
Thomas G. Ferguson Associates, Inc

In [illegible] Thomas Ferguson Associates launched products which relieved tension headaches, [illegible] migraine headaches and helped 6,500 people who had organ transplants



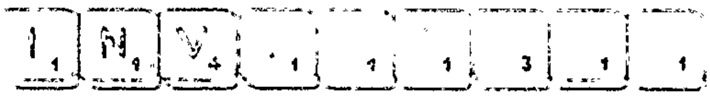
The Marketing Consultancy Limited

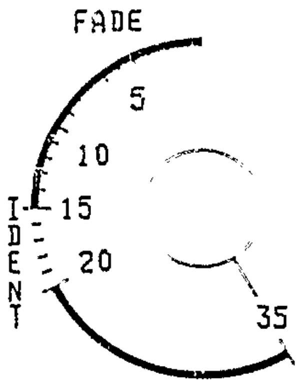
Q What have over 270 [illegible] publicans, restaurateurs, car dealers and bank managers got in common? A They're all national retailers that, with the help of The Marketing Consultancy, they all promote themselves each [illegible] in neighbourhood markets as local businesses in their own right



Brouillard Communications

Our art directors may be the best in the business at picturing what can't be seen – because our clients make things that exist only as bytes or bits of paper. What does a bank or an insurance company produce that you can picture? How do you photograph foreign exchange or illustrate interest rate swaps? Even our largest client, American Gas Association, serves something that is in its natural state both colourless and





[illegible] Pictures

Thompson Recruitment Advertising

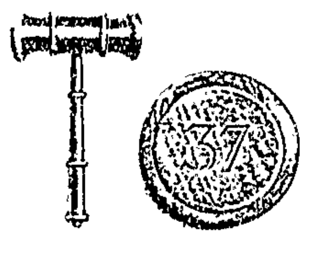
All our ads for all our clients are response-driven. One example: a desperate client called for help and within two weeks the TV, radio and print ads we created delivered over 5,700 prospects for hard-to-fill positions. Our happy client was able to hire 403 – at the lowest cost per hire in the client's history

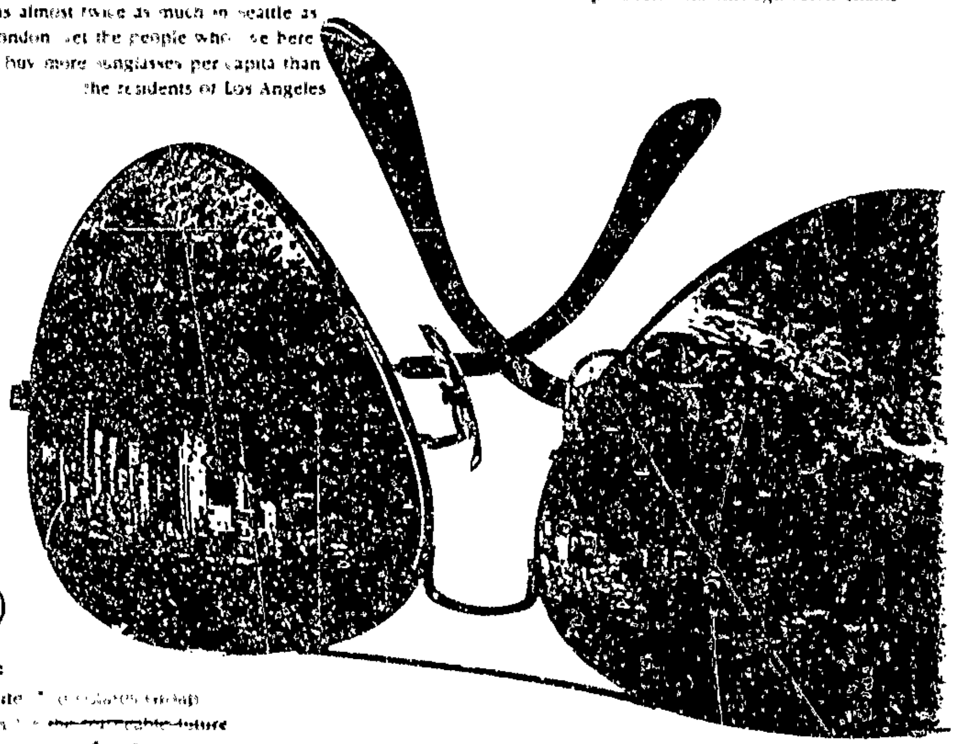
A. Elcoff & Company

Although A. Elcoff & Company is the world's largest television direct response agency, 35% of its business consists of trade support advertising – local television advertising for products sold through retail chains

Cole & Weber

Seattle-based advertising agency Cole & Weber does business in an optimistic environment. It rains almost twice as much in Seattle as in London, yet the people who live here buy more sunglasses per capita than the residents of Los Angeles





Timmons and Company, Inc

Timmons and Company has had client issues raised before all 21 Standing Committees in the US House of Representatives and all 16 Standing Committees in the US Senate

(1971-   )

The Futures Group, Inc

[illegible] scenarios [illegible] The Futures Group [illegible] strategies of companies and governments [illegible] the foreseeable future

J. Walter Thompson.

J. Walter Thompson Company

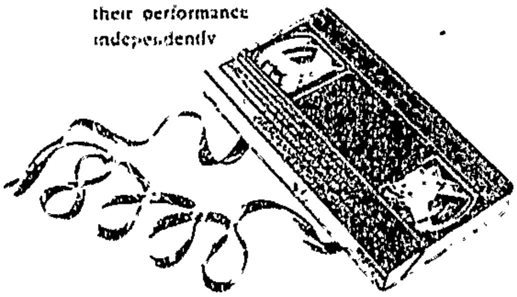
The J. Walter Thompson Company is the only agency in the top ten rankings in every region of the world

G Force

To stage an event seen by 18,000 people at 15 venues throughout the UK, and produce an award-winning programme to follow it, is just part of the picture

MetroVideo

An interactive video training system designed by MetroVideo allows salesmen to role-play themselves and assess their performance independently



HLS CORP

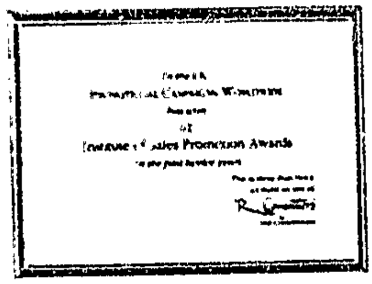
In 1990, HLS CORP helped

37,000

OPTOMETRISTS

AND OPHTHALMOLOGISTS

see their practices more clearly

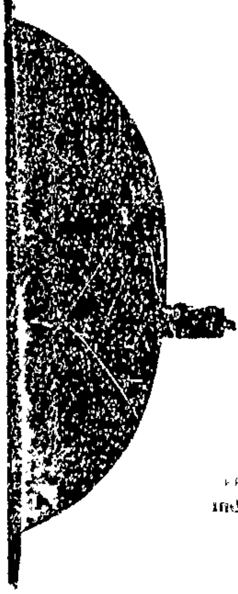


1 FAILURE = 1 SUCCESS

VAP Advertising & Marketing Group

Failure – VAP Advertising & Marketing Group state in their corporate brochure they do not design for creative award juries

Success – it was their own corporate brochure which won premier place in the 1990 pan-European Trophée de la Qualité in Paris.



II

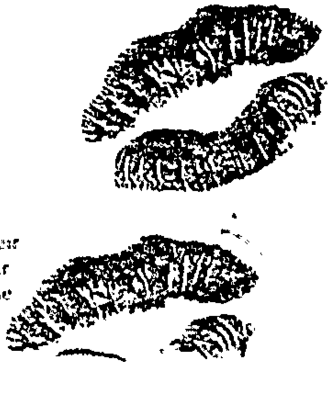
Ogilvy Public Relations Group

Depending on their needs, clients of the Ogilvy Public Relations Group can be served by one or both of the firm's two distinct organisational units: Ogilvy & Mather Public Relations, which offers general public relations and specialises in marketing communications, and Adams & Rinehart, which provides corporate and financial relations and public affairs counselling.

32%

EWA Ltd

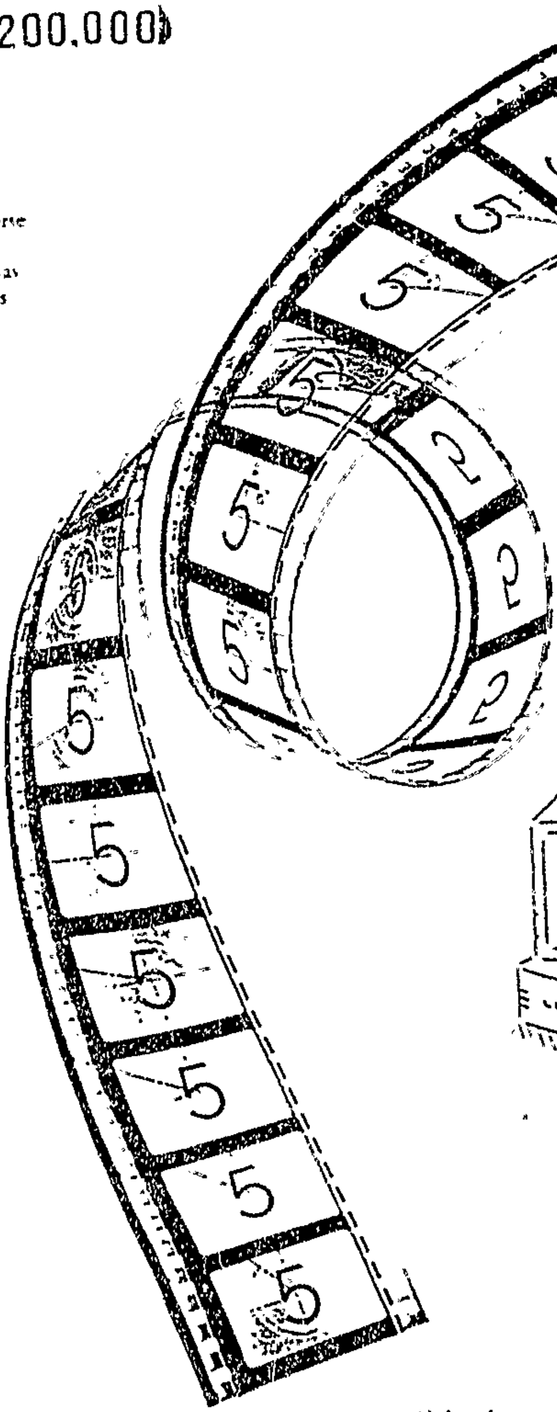
A questionnaire designed and produced by EWA and sent to their database of 400,000 potential car customers elicited a 32% response and a very happy client



1.453.200.000

Ogilvy & Mather Direct

Ogilvy and Mather Direct believes 1 is the most important number in the universe. We treat not only our clients but their customers and prospects in a first-class way and communicate to them as individuals. We call it one-to-one marketing.



Millward Brown International Plc

"Millward Brown's Link advertising pre-testing has saved us millions. About £5 million to be more specific."
Marketing Director
leading financial services company.
UK Market Research Society Conference 1992

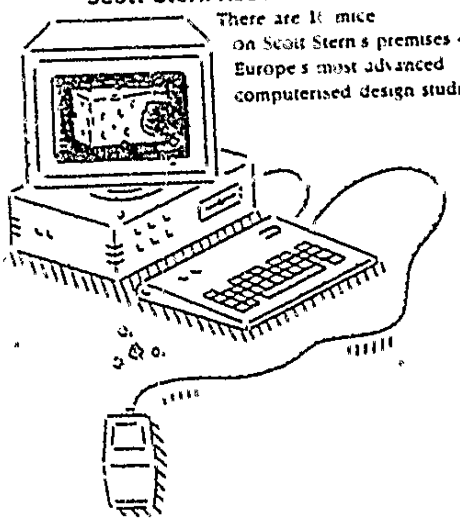
Millward Brown International Plc – currently making savings all over Europe and America

JWT Healthcare Group

Among JWT Healthcare Group's pharmaceutical products are morphine, cocaine, and a marijuana-derived antiemetic. We have also created acclaimed advertising as shown here, for the Partnership for a Drug-Free America.

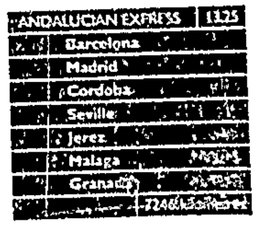
Scott Stern Associates Limited

There are 1[illegible] mice on Scott Stern's premises – Europe's most advanced computerised design studio



Seiniger Advertising Inc

Seiniger Advertising worked on the ad campaigns for five out of the ten top-grossing motion pictures of 1990



International Vacationers

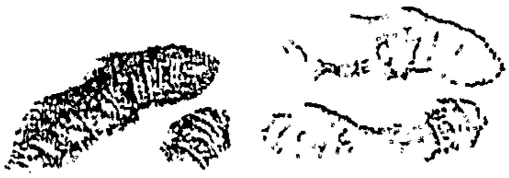
During the 1992 Olympics Spain's luxurious Andalucian Express which has been exclusively chartered by International Vacationers Conference and Incentives for the entire Olympic Games period will travel 7,240 kilometres with stopovers in Madrid, Cordoba, Seville, Jerez, Malaga, Granada as well as Barcelona

Oakley Young

60% of Oakley Young's new business in 1990 came from WPP cross-referrals and joint presentations, the biggest of which involved six WPP companies

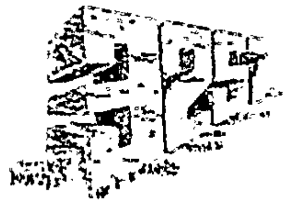
4th Dimension

In 1991, 4th Dimension will produce display units to hold 315,000 Yardley lipsticks, which is enough lipstick to cover 35,000,000 lips



Carl Byoir & Associates, Inc

The most junior consultant in the Carl Byoir staff has 15 years of public relations experience. Our staff average is 22 years



LansdownEuro

The number of advertisements LansdownEuro produce in one year for one of our larger clients

3

Entertainment Group

... the Group's client, Paramount ... has just broken a world record for the ... cassette release of the ... motion picture GHOST – making it the biggest rental title in history, selling 637,341 by March 1991

The Grass Roots Group PLC

Keeping quality 'tabs' on 20,000 UK retail outlets

20,000

53%

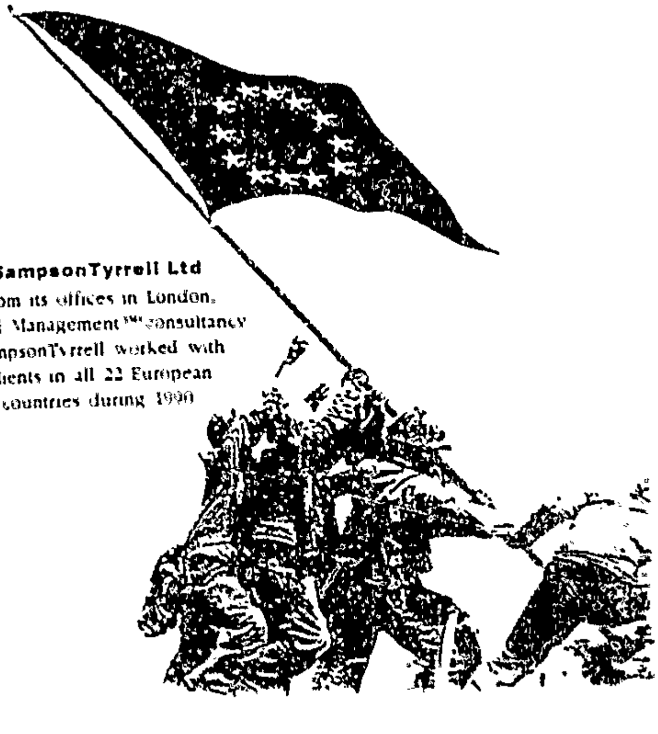
1980s

Mendoza, Dillon & Asociados, Inc

Mendoza, Dillon & Asociados, with advertising and marketing services addressing the US Hispanic market, would like to point out that the US Hispanic market had a growth rate of 53% during the last decade

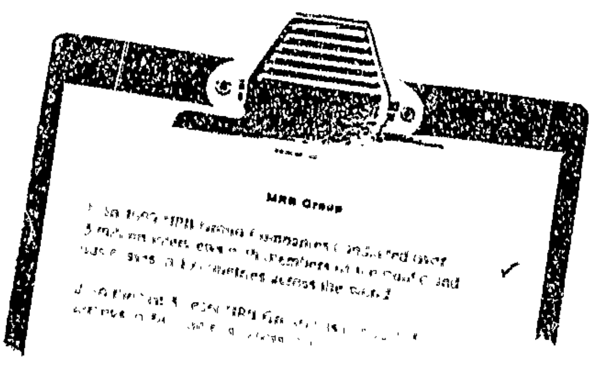
Mando Marketing Limited

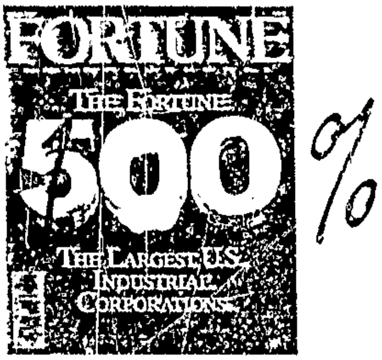
From small acorns big oak trees grow. A new client who spent £40,000 with Mando Marketing in 1990 has to date spent £1.6 million in 1991. We are now seeking more acorns



SampsonTyrrell Ltd

From its offices in London, Visual Management™ consultancy SampsonTyrrell worked with clients in all 22 European countries during 1990





Anspach Grossman Portugal

Sales growth among the 55 Fortune 500 companies that Anspach Grossman Portugal worked with in 1984 was 500% greater than for the Fortune 500 as a whole

-62%

Business Design Group

A satisfied client of Business Design Group

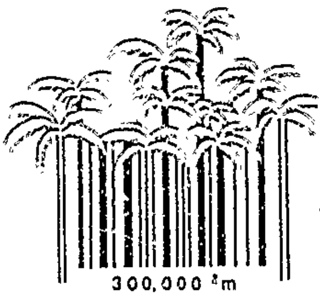
Since we had the office environment improved our staff turnover has fallen from 66% to 25% A 62% drop Amazing!

Scali, McCabe, Sloves, Inc

And by 1991 our European offices are expecting 15% growth while other companies will be tightening their belts we'll have to get a new one

Hill and Knowlton, Inc

within three hours just like you and you would? Hill and Knowlton's crisis management service can put one, twelve or fifteen people in as many locations as necessary within two to three hours



Walker Group/CNI

Walker Group CNI is designing a mall in the Philippines with an overall area of over 300,000 square metres. It's one of the largest malls in the entire Pacific Rim area and big enough to contain 85 American football fields or 65 UK department stores

Reese Communications Companies and Targeted Communications Corporation

34,271 letters were generated and delivered to Capitol Hill within just six hours of client go-ahead. At the end of two weeks we had delivered over 116,000 letters to all 535 congressional members

Results Training Ltd

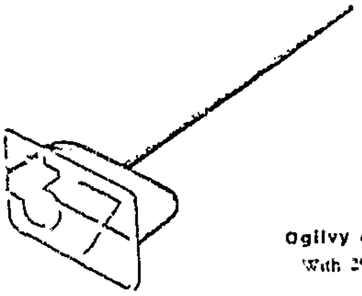
Every single day last year 19 staff from one of the leading high street banks independently chose to use Results Training's programmes to improve their own personal performance

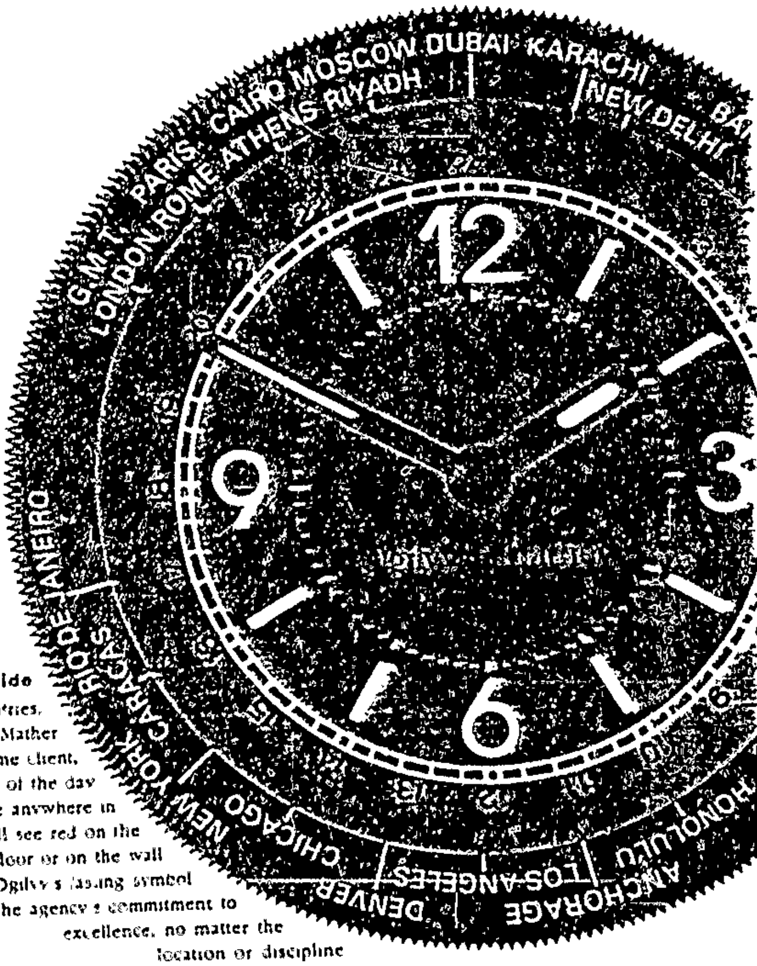
The Henley Centre forecasts that by 2001 we will be keeping away from the Joneses not up with them

30,000,000

McColl Group International PLC

The people [illegible] Europe don't know McColl. Yet every week [illegible] of them in 12 countries will travel, shop, bank, work and play, drink or stay in environments created by the McColl Group's architects and designers.





Ogilvy & Mather Worldwide

With 292 offices in 56 countries, there's an Ogilvy & Mather office at work for some client, somewhere, at every hour of the day. Go to an Ogilvy office anywhere in the world and you'll see red on the door, on the floor or on the wall. It's David Ogilvy's lasting symbol of the agency's commitment to excellence, no matter the location or discipline.

Coley Porter Bell

During [illegible] 37 chief executives of major organizations around the world sat at Coley Porter Bell's boardroom table to discuss the development of their company and brand identities.

J. Walter Thompson Direct

JWT Direct's marketing programme to re-attract a high-technology client's lapsed customers beat the control programme against which it was tested by an astonishing 1082% – beyond even the client's best-case projection.

1082%

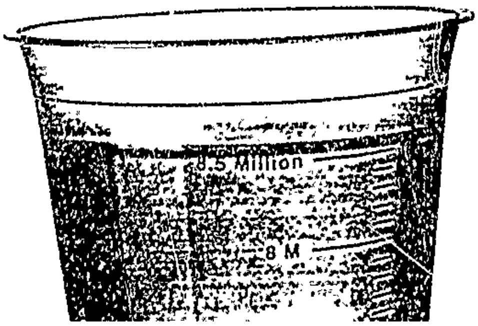
$500,000,00

Research International Ltd

In 1990, Research International's MicroTest™ sales prediction technique has not only helped clients in 20 countries pick many potential new product winners but also saved them over $500,000,000 in wasted launch costs for products which would have failed in the marketplace.

Einson Freeman Inc

A sustained 1% gain in market share was the measured result for one leading oral hygiene brand following an Einson Freeman promotion in 1990. That equates to an $8.5 million volume increase in a highly contested product category.



14

Pace Communications Group Inc

At a time when most new homes in the New York marketplace were taking an average of 9½ weeks to sell, Pace created an advertising campaign for one of its clients which helped them sell out an entire community of 78 homes – in 14 hours.

Wire and Plastic Products Ltd

[illegible] year Wire and Plas[illegible]

Accou

J F M A M J J

1990 Report and Accounts

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S O N D

Board of Directors and Advisers

WPP Group plc
David Ogilvy *Chairman*
J J D Bullmore
S H M King
R E Lerwill
J A Quelch
G C Sampson
M S Sorrell
J R Symonds
[illegible]
N C Berry
C J Coles
R P Emmins
S Goldstein
P Law-Gisiko
S Lewis
M Richardot
D M Roberts
C F Schulten *Secretary*
C Sweetland

R J C Beanland
R E Boyle
R Day
H M L Doherty
J Drefs
M A Hill
M E Howe
M W Hoban
J Kopchinsky
F McEwan
S R Mitchell
T Neuman
M J Read
N Stephenson
A G Stu[illegible]son
J Treacy

Head Office
27 Farm Street
London
W1X 6RD

Registered Office
Industrial Estate
Hythe
Kent
CT21 6PE

Auditors
Arthur Andersen & Co
1 Surrey Street
London
WC2R 2PS

Registrars
National Westminster
Bank PLC
PO Box No 82
Caxton House
Redcliffe Way
Bristol
BS99 7NH

Bankers
Citibank, N A
336 Strand
London
WC2R 1HB

Midland Bank plc
Poultry
London
EC2P 2BX

J P Morgan
PO Box 61
1 Angel Court
London
EC2R 7AE

Merchant Bankers
Samuel Montagu
& Co Limited
10 Lower Thames Street
London
EC3R 6AE

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

Wertheim Schroder
& Co. Inc.
Equitable Centre
787 Seventh Avenue
New York
NY 10019

Stockbrokers
Panmure Gordon
& Co Limited
9 Moorfield Highwalk
London
EC2Y 9DS

Solicitors
Allen & Overy
9 Cheapside
London
EC2V 6AD

Calow Easton
18/19 Southampton Place
London
WC1A 2AJ

Davis & Gilbert
1740 Broadway
New York
NY 10019

Fried, Frank, Harris,
Schriver & Jacobson
1 New York Plaza
New York
NY 10004

Property Advisors
James Andrew Badger
Limited
11 Waterloo Place
London
SW1Y [illegible]AU

Auditors' Report

To the members of WPP Group plc.

We have audited the accounts set out on pages 41 to 61 in accordance with Auditing Standards.

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and of the Group at 31 December 1990 and of the profit and source and application of funds of the Gro[illegible]r the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen & Co.
London

24 May 1991

Directors' Report

The directors present their annual report, together with the audited accounts for the year ended 31 December 1990

Profits and Dividends

The profit on ordinary activities before tax for the year was £90,040,000 (1989 £75,039,000)

For the reasons noted below, the directors are recommending that no Ordinary dividend be paid in respect of 1990 (1989: 24.2p).

The retained profit of £32,920,000 is carried to reserves

Review of the Group

The Company is a holding company. The principal activity of the Group is the provision of marketing services worldwide.

The Group achieved growth for the eighth successive year with improvement in all market sectors. However, in November 1990 the impact of recession in several of the Group's primary markets, including the United Kingdom and United States, and uncertainties following the invasion of Kuwait gave the Company reason to believe that there might be a breach of its existing loan covenants in the second quarter of 1991. Following completion of its 1991 budgets and discussions with its banking syndicate and other lenders, in April 1991 the Company entered into new financing arrangements which provide increased committed funding and which will enable it to trade more effectively in the future. The accompanying accounts incorporate the terms of the new arrangements where appropriate.

Due to covenants given to the lenders there are insufficient distributable reserves in the Company to pay the Preference dividend which would otherwise have fallen due on 30 April 1991 and which is in arrears at the date of this report. If the dividend on the Convertible Cumulative Preference shares remains in arrears at 31 October 1991 then, with effect from that date and until all arrears are paid, the holders of the shares will be entitled to vote at General Meetings of the Company convened on or after that date on the basis of one vote for each share held. Additionally, no dividends on the Ordinary shares will be capable of being declared or paid prior to the payment in full of any arrears of Preference dividends. In the light of the covenants given to its lenders it is unlikely that the Company will have sufficient distributable reserves to pay dividends on its shares until at least June 1993.

A full review of the Group's activities during the year is given in the Review of Operations.

Movements in Fixed Assets

The consolidated balance sheet includes a conservative valuation of certain corporate brand names. Details of this and movements in fixed assets are set out in notes 9 to 11 to the accounts.

Share Capital

The number of Ordinary shares in issue increased during the year from 41,098,703 to 43,265,814 primarily due to shares issued as part consideration for acquisitions. Details of the share movements during the year are given in note 18 to the accounts.

It is proposed to extend the existing power of your directors in relation to the allotment of Ordinary shares for cash in order to give your board continuing flexibility and shareholders' approval is therefore sought to disapply the pre-emption provisions of section 89(1) of the Companies Act 1985 in relation to Ordinary shares of a nominal value not exceeding £216,000

Directors' Report

Directors

The directors' beneficial interests, including family holdings, in the Company's share capital were as follows:

	31 December 1990			1 January 1990		
	Ordinary Shares	Preference Shares	Subscription Warrants	Ordinary Shares	Preference Shares	Subscription Warrants
David Ogilvy	4,000	–	–	–	–	–
J J D Bullmore	3,000	15,900	375	3,000	15,900	375
S H M King	–	–	–	–	–	–
R E Lerwill	20,075	28,813	7,509	20,075	13,813	7,509
J A Quelch	400	–	–	400	–	–
G C Sampson	289,515	156,750	–	289,515	156,750	–
M S Sorrell	930,287	506,851	116,285	930,287	506,851	116,285
J R Symonds	12,547	20,000	–	12,547	10,000	–

On 24 May 1991 the interests of the directors were unchanged from 31 December 1990.

Mr R E Lerwill has been granted options in respect of a total of 126,376 Ordinary shares, as adjusted for the effects of the rights issue in June 1989.

Mr J R Symonds and Mr S H M King retire by rotation and, being eligible, offer themselves for re-election. Neither Mr Symonds nor Mr King have service contracts which exceed one year in duration.

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

The Company has maintained insurance during the year to indemnify its directors and officers against liability when acting for the company.

Non-Executive Directors

David Ogilvy became non-executive chairman of WPP Group in June 1989. As founder of Ogilvy & Mather, and author of a number of best selling books on advertising, he is known and respected internationally. He has been described by *Adweek* as 'advertising's only living legend and the master codifier of the advertising business' and by *Time* as 'the most sought-after wizard in the advertising business.' He became a CBE in 1967.

Jeremy Bullmore took up his post of non-executive 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 he has written and lectured extensively on marketing and advertising. He became a CBE in 1985.

Stephen King was appointed non-executive director of WPP Group in 1989 after 31 years at J Walter Thompson, ultimately as Research and Planning Director. A founding father of the planning function in advertising agencies, he is author of the standard text, *Developing New Brands*, as well as numerous articles on branding. He is currently Visiting Professor of Marketing Communications at the Cranfield School of Management.

Professor John Quelch, non-executive director, is professor of business administration at Harvard University Graduate School of Business Administration. A prolific writer on marketing issues and public policy issues, he is also author of numerous books on marketing management including *The Marketing Challenge of Europe 1992*.

John Symonds was chairman of WPP Group for eight years until June 1989 when he stood down in favour of David Ogilvy. A solicitor, he was a partner in a legal practice in Kent for 33 years, latterly as senior partner, until his retirement in October 1989.

Substantial Shareholdings

As at the date of this report, the Company has been notified of the following interests of 3 per cent or more in the Ordinary share capital of the Company: Mike Luckwell Nominees Limited – 4.68 per cent, Pioneer II Fund – [illegible].21 per cent, and Legg Mason Special Investment Trust – 3.36 per cent. The Company is not aware of any other holdings in excess of 3 per cent.

Close Company Status

The directors have been advised that the Company is not a close company within the meaning of the terms of the Income and Corporation Taxes Act 1988.

Disabled Employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee Consultation and Involvement

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

The Executive Share Option Scheme is available to all full-time employees of the Group nominated by the directors of each company within the Group. Options have currently been granted to a total of 384 (1989: 399) employees over a total of 2,891,115 (1989: 3,127,428) 10p Ordinary shares of the Company. The exercise of these options is generally conditional on the profit performance of the employee's company.

Charitable and Political Contributions

The Group contributed £184,000 to UK charities in 1990. No contributions were made to political parties.

Auditors

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

By order of the Board

C F Schulten
Secretary

24 May 1991

Accounting Policies

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

1 **Basis of Accounting**

The accounts are prepared under the historical cost convention, modified to include the revaluation of land and buildings and corporate brand names. The consolidated accounts include the results of the Company and all its subsidiary undertakings made up to the same accounting date. The results of subsidiary undertakings acquired during the year are included from the date of completion of the acquisition.

2 **Goodwill**

Goodwill represents the excess of the fair value attributed to investments in businesses or subsidiary undertakings over the fair value of the underlying net assets at the date of their acquisition. Goodwill arising on consolidation is written off against reserves in the year in which it arises.

3 **Intangible Fixed Assets**

Intangible fixed assets comprise certain acquired separable corporate brand names. These are shown at a valuation of the incremental earnings expected to arise from the ownership of brands. The valuations have been based on the present value of notional royalty savings arising from the ownership of those brands and on estimates of profits attributable to brand loyalty.

The valuations are subject to annual review. No depreciation is provided since, in the opinion of the directors, the brands do not have a finite useful economic life.

4 **Tangible Fixed Assets**

Tangible fixed assets are shown at cost or valuation less accumulated depreciation.

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

Freehold buildings – 2%
Leasehold land and buildings – over the term of the lease
Fixtures, fittings and equipment – 10% to 33⅓%

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

5 **Investments**

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

6 **Stocks and Work in Progress**

Work in progress is valued at cost which comprises outlays incurred on behalf of clients, or the value of work performed on uncompleted assignments or products. Provision is made for irrecoverable costs where appropriate. Stocks are stated at the lower of cost and net realisable value.

Accounting Policies

7 **Debtors**

Debtors are stated net of provisions for bad and doubtful debts

8 **Taxation**

Corporate taxes are payable on taxable profits at the current rates prevailing

Deferred taxation is calculated under the liability method and provision is made for all timing differences which are expected to reverse, at the rates expected to be in force at the time of the reversal.

9 **Pensions**

Contributions to defined contribution schemes are made in accordance with the recommendations of actuaries and are charged to the profit and loss account as incurred.

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

10 **Turnover and Revenue**

Turnover comprises the gross amounts billed to clients in respect of commission based income together with the total of other fees earned. Revenue comprises commissions and fees earned in respect of turnover.

Turnover and revenue are stated exclusive of VAT, sales taxes and trade discounts.

11 **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 the retranslation at year-end exchange rates of the opening net investments and results for the year are dealt with as movements in reserves.

Consolidated Profit and Loss Account

For the year ended 31 December 1990

Notes		1990 £000	1989 £000	1990 $000	1989 $000
	Turnover	5,460,454	4,496,898	9,758,923	7,190,735
1	**Revenue**	1,264,100	1,905,453	2,259,200	1,640,598
	Gross Profit	1,075,506	843,032	1,922,144	1,375,575
	Other operating expenses (net)	(942,535)	(740,550)	(1,684,498)	(1,208,355)
2	**Operating Profit**	132,971	102,482	237,646	167,220
	Interest receivable	14,275	16,072	25,512	26,224
3	Interest payable and similar charges	(57,206)	(43,515)	(102,239)	(71,003)
	Profit on Ordinary Activities before Taxation	90,040	75,039	160,919	122,441
5	Tax on profit on ordinary activities	(36,376)	(34,532)	(65,011)	(56,346)
	Profit on Ordinary Activities after Taxation	53,664	40,507	95,908	66,095
	Minority interests	(3,096)	(2,306)	(5,533)	(3,763)
	Profit for the Financial Year	50,568	38,201	90,375	62,332
6	Preference dividends	(17,648)	(8,413)	(31,541)	(13,727)
	Profit Attributable to Ordinary Shareholders	32,920	29,788	58,834	48,605
6	Ordinary dividends	–	(9,913)	–	(16,175)
19	**Retained Profit for the Year**	32,920	19,875	58,834	32,430
7	**Earnings per Share**				
	Basic	78.1p	73.0p	$1.40	$1.19
	Fully diluted	71.3p	71.2p	$1.27	$1.16

The main reporting currency of the Group is the pound sterling and the accounts have been prepared on this basis Solely for convenience, the accounts set out on pages 43 to 47 are also presented expressed in US dollars using the approximate average rate for the year for the profit and loss account (1990 $1.7872=£1, 1989 $1.6317=£1), the rate in effect on 31 December for the balance sheets (1990. $1.9300=£1, 1989 $1.6125=£1), and a combination of these for the statement of source and application of funds. 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.

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

Consolidated Balance Sheet

As at 31 December 1990

Notes		1990 £000	1989 £000	1990 $000	1989 $000
	Fixed Assets				
9	Intangible assets	350,000	350,000	675,500	564,375
10	Tangible assets	136,223	156,583	262,910	252,490
11	Investments	12,543	19,774	24,208	31,886
		498,766	526,357	962,618	848,751
	Current Assets				
12	Stocks and work in progress	61,955	91,004	119,573	146,744
13	Debtors	606,234	648,778	1,170,032	1,046,155
14	Investments	8,679	6,759	16,751	10,899
	Cash at bank and in hand	229,455	233,617	442,847	376,707
		906,323	980,158	1,749,203	1,580,505
15	**Creditors:** Amounts falling due within one year	(985,688)	(1,149,858)	(1,902,377)	(1,854,146)
	Net Current Liabilities	(79,365)	(169,700)	(153,174)	(273,641)
	Total Assets Less Current Liabilities	419,401	356,657	809,444	575,110
16	**Creditors:** Amounts falling due after more than one year	(534,647)	(535,618)	(1,031,869)	(863,084)
17	**Provisions for Liabilities and Charges**	(118,081)	(151,170)	(227,896)	(243,762)
	Net (Liabilities)	(233,327)	(330,131)	(450,321)	(532,336)
	Capital and Reserves				
18	Called up share capital	25,711	25,505	49,622	41,127
19	Share premium	194,275	192,721	374,951	310,763
19	Merger reserve	(829,417)	(797,811)	(1,600,775)	(1,286,470)
19	Other reserves	291,955	196,247	563,473	316,447
19	Profit and loss account	73,847	40,927	142,525	65,995
	Shareholders' Funds	(243,629)	(342,411)	(470,204)	(552,138)
	Minority interests	10,302	12,280	19,883	19,802
	Total Capital Employed	(233,327)	(330,131)	(450,321)	(532,336)

Signed on behalf of the Board on 24 May 1991

Directors

R E Lerwill

M S Sorrell

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17 AUG 1991
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The main reporting currency of the Group is the pound sterling and the accounts have been prepared on this basis. Solely for convenience, the accounts set out on pages 43 to 47 are also presented expressed in US dollars using the approximate average rate for the year for the profit and loss account (1990: $1.7872=£1, 1989: $1.6317=£1), the rate in effect on 31 December for the balance sheets (1990: $1.9300=£1, 1989: $1.6125=£1), and a combination of these for the statement of source and application of funds. 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.

The accompanying notes form an integral part of this balance sheet

Company Balance Sheet

As at 31 December 1990

Notes		1990 £000	1989 £000	1990 $000	1989 $000
	Fixed Assets				
10	Tangible assets	459	756	886	1,219
11	Investments	460,195	353,140	888,176	569,438
		460,654	353,896	889,062	570,657
	Current Assets				
13	Debtors	64,521	292,058	124,526	470,944
	Cash at bank and in hand	14,768	10,640	28,502	17,157
		79,289	302,698	153,028	488,101
15	**Creditors:** Amounts falling due within one year	(42,647)	(62,143)	(82,309)	(100,206)
	Net Current Assets	36,642	240,555	70,719	387,895
	Total Assets Less Current Liabilities	497,296	594,451	959,781	958,552
16	**Creditors:** Amounts falling due after more than one year	(18,500)	(88,275)	(35,705)	(142,343)
17	**Provisions for Liabilities and Charges**	(2,958)	(9,076)	(5,709)	(14,635)
	Net Assets	475,838	497,100	918,367	801,574
	Capital and Reserves				
18	Called up share capital	25,711	25,505	49,622	41,127
19	Reserves	450,127	471,595	868,745	760,447
	Total Capital Employed	475,838	497,100	918,367	801,574

Signed on behalf of the Board on 24 May 1991

Directors

R E Lerwill

M S Sorrell

The main reporting currency of the Group is the pound sterling and the accounts have been prepared on this basis. Solely for convenience, the accounts set out on pages 43 to 47 are also presented expressed in US dollars using the approximate average rate for the year for the profit and loss account (1990: \$1.7872=£1, 1989: \$1.6317=£1), the rate in effect on 31 December for the balance sheets (1990: \$1.9300=£1, 1989: \$1.6125=£1), and a combination of these for the statement of source and application of funds. 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.

The accompanying notes form an integral part of this balance sheet

Consolidated Statement of Source and Application of Funds

For the year ended 31 December 1990

	1990 £000	1989 £000	1990 $000	1989 $000
Source of Funds				
Profit before tax	90,040	75,039	160,919	122,441
Items not involving the movement of funds				
Depreciation	25,464	19,829	45,509	32,355
Increase in other provisions	3,296	2,285	5,891	3,728
(Profit) loss on disposal of tangible fixed assets	(657)	226	(1,174)	369
Minority interest in retained profit for the year	(3,096)	(2,306)	(5,533)	(3,763)
Total Funds from Operations	115,047	95,073	205,612	155 130
Funds from other sources				
Taxation and provisions assumed on acquisition of subsidiary undertakings	–	132,145	–	213,084
Drawdown of medium and long term debt	75,305	342,424	145,339	558,733
Rescheduling of short term debt as long term	30,737	–	59,322	–
Proceeds from issues of ordinary and preference shares	46	214,119	82	349,378
Proceeds from sale of tangible fixed assets	8,483	5,239	15,161	8,548
Exchange movements	27,848	9,928	47,271	22,559
Shares issued as part consideration of the acquisition of subsidiary undertakings*	10,431	8,837	18,642	14,419
	287,897	807,765	491,429	1,321,851
Application of Funds				
Dividends paid	27,528	12,520	49,200	20,429
Taxation paid	33,236	56,953	59,399	92,930
Repayment of loans	21,246	6,542	35,108	10,675
Purchase of intangible fixed assets	–	175,000	–	285,548
Purchase of tangible fixed assets*	32,816	84 569	58,649	137,991
Increase in fixed asset investments	2,634	15,275	4,707	24,924
Decrease (increase) in creditors and provisions due after more than one year*	52,488	(68,999)	101,302	(111,261)
Decrease (increase) in minority interests	1,978	(11,100)	3,818	(17,899)
Goodwill arising on acquisitions of subsidiary undertakings*	41,648	655,911	74,791	1,070,250
	213,775	926,671	386,974	1 513,587

Consolidated Statement of Source and Application of Funds

For the year ended 31 December 1990

	1990 £000	1989 £000	1990 $000	1989 $000
Increase (Decrease) in Working Capital*				
Stocks and work in progress	(29,049)	56,664	(56,065)	91,371
Debtors	(32,176)	376,350	(62,100)	606,864
Investments	(4,505)	(7,153)	(6,810)	(11,533)
Creditors: amounts falling due within one year	74,545	(594,408)	140,872	(958,484)
	8,755	(168,547)	16,897	(271,782)
	45,367	49,641	87,558	80,046
Movements in Net Liquid Funds*				
Cash at bank	(4,162)	141,025	(8,033)	227,403
Bank loans and overdrafts	49,529	(91,384)	95,591	(147,357)
	45,367	49,641	87,558	80,046

*The effects of the acquisition of subsidiary undertakings on the above statement was as follows:

Net Assets Acquired:	1990 £000	1990 $000	**Discharged by:**	1990 £000	1990 $000
Tangible fixed assets	1,382	2,470	Shares	10,431	18,642
Net current assets	9,065	16,201	Cash paid and accrued	37,331	66,719
Long term creditors and provisions	(4,533)	(8,101)			
Goodwill	41,848	74,791			
	47,762	85,361		47,762	85,361

The main reporting currency of the Group is the pound sterling and the accounts have been prepared on this basis. Solely for convenience, the accounts set out on pages 43 to 47 are also presented expressed in US dollars using the approximate average rate for the year for the profit and loss account (1990: $1.7872=£1, 1989: $1.6317=£1), the rate in effect on 31 December for the balance sheets (1990: $1.9300=£1, 1989: $1.6125=£1), and a combination of these for the statement of source and application of funds. 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.

The accompanying notes form an integral part of this statement

Notes to the Accounts

1 **Segment Information**

The Group provides marketing services both on a national and a multi-national basis. Contributions to Group revenue by geographical area were as follows

	1990 £000	1989 £000
United Kingdom	271,218	206,014
North America	600,042	522,893
Rest of the World	392,840	276,546
	1,264,100	1,005,453

2 **Operating Profit**

Operating profit is stated after charging (crediting)

	1990 £000	1989 £000
Cost of sales	188,594	162,421
Administration and other operating expenses	944,082	741,728
Other operating income	(1,546)	(1,178)
These amounts include:		
Depreciation of and amounts written off		
– owned tangible fixed assets	24,828	18,756
– assets held under finance leases and hire purchase contracts	636	1,073
Operating lease rentals		
– plant and machinery	14,458	8,428
– property	72,085	57,822
Hire of plant and machinery	1,360	1,350
Auditors' remuneration	2,744	2,371
Exceptional items		
– inducements to enter property leases	(6,076)	–
– accrual for costs of debt refinancing (note 16)	8,000	–
– accruals for reorganisation and rationalisation to be implemented in 1991	6,000	–
– release of liabilities provided for in prior years but proved not to be required	(7,950)	–

3 **Interest Payable and Similar Charges**

	1990 £000	1989 £000
On bank loans and overdrafts, and other loans:		
– repayable within five years, by instalments	461	359
– repayable within five years, not by instalments	14,358	11,494
	14,819	11,853
On all other loans	42,387	31,662
	57,206	43,515

Notes to the Accounts

4 Emoluments of Directors and Employees

	1990 £000	1989 £000
Emoluments of directors and employees during the year amounted to:		
Wages and salaries	531,208	393,497
Social security costs	49,563	36,534
Other pension costs	22,750	16,802
	603,521	446,833

The average weekly number of persons employed by the Group during the year was as follows:

	1990 Number	1989 Number
United Kingdom	4,158	3,602
Overseas	18,432	13,966
	22,590	17,568

Directors' emoluments:
Directors of the Company received the following remuneration:

	1990 £000	1989 £000
Emoluments including profit related bonuses and pension contributions	1,179	1,165

The directors' emoluments shown above (excluding pensions and pension contributions) include £507,000 (1989: £629,000) in respect of the highest paid director who waived £93,000 of contractual emoluments without affecting his contractual position. No emoluments were received by the chairman in respect of his services in the United Kingdom.

Other directors based in the United Kingdom received emoluments (excluding pensions and pension contributions) in the following ranges:

	1990 Number	1989 Number
£nil to £5,000	1	1
£40,001 to £45,000	1	1
£75,001 to £80,000	2	2
£255,001 to £260,000	–	1
£300,001 to £305,000	1	–

The 1990 emoluments of the director in the highest band above includes a bonus of £106,666 paid in March 1990 relating to performance in periods prior to that date.

Notes to the Accounts

5 Tax on Profit on Ordinary Activities

	1990	1989
	£000	£000
The tax charge is based on the profit for the year and comprises:		
Corporation tax at 35% (1989 35%)	14,022	7,228
Deferred taxation	748	6,025
Overseas taxation	21,606	21,279
	36,376	34,532

The Group's effective rate of tax is greater than the United Kingdom corporate tax rate of 35% due to the significant level of overseas income subject to higher rates of taxation.

6 Dividends Paid and Proposed

	1990	1989
Preference		
8.25p (net) Convertible Cumulative Redeemable Preference shares of 10p each	17,648	8,413

The charge for preference dividends includes amounts set aside for future payments which cannot currently be made due to the insufficiency of distributable reserves in the Company (note 17).

	1990	1989
Ordinary		
Interim – nil (1989: 11.3p per share)	–	4,588
Final – nil (1989: 12.9p per share)	–	5,325
	–	9,913

7 Earnings per Share

The basic earnings per share have been calculated using the profit attributable to ordinary shareholders of £32,920,000 (1989: £29,788,000) and the average number of Ordinary shares in issue during the year of 42,134,778 (1989: 40,809,466 shares).

The fully diluted earnings per share has been calculated assuming the full issue of Ordinary shares for all exercisable Convertible Preference shares, Warrants and Options in issue at 31 December 1990.

In 1990 and earlier years, the Group acquired companies on terms which may give rise to further consideration payable in the form of shares depending on their profit performance (note 21). It is not possible to estimate accurately the number of shares which may be issued and consequently no potential dilution has been taken into account in calculating the Group's fully diluted earnings per share.

8 Contributions to Consolidated Profit

As provided by the Companies Act 1985 s 228, the profit and loss account for the Company alone has not been presented. Included within the consolidated profit for the financial year is a loss of £15,616,000 (1989: profit £41,423,000) in respect of the Company. The consolidated profit before tax includes £2,238,000 (1989: £20,370,000) contributed by companies acquired during the year.

9 **Intangible Fixed Assets**

	1990	1989
	£000	£000
Corporate brand names	350,000	350,000

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

10 **Tangible Fixed Assets**

a) Group

The movement in the year was as follows:

	Land and Buildings		Fixtures Fittings & Equipment	Total
	Freehold	Leasehold		
	£000	£000	£000	£000
Cost or valuation:				
Beginning of year	20,147	79,553	95,909	195,609
New subsidiary undertakings	–	403	2,217	2,620
Additions	1,024	8,938	21,472	31,434
Disposals	(1,449)	(2,451)	(11,981)	(15,881)
Exchange adjustments	(822)	(10,173)	(9,605)	(20,600)
Revaluation	(1,688)	–	–	(1,688)
End of year	17,212	76,270	98,012	191,494
Depreciation:				
Beginning of year	279	11,445	27,302	39,026
New subsidiary undertakings	–	185	1,053	1,238
Charge	498	6,467	18,499	25,464
Disposals	(15)	(1,542)	(6,498)	(8,055)
Exchange adjustments	(51)	(155)	(2,196)	(2,402)
End of year	711	16,400	38,160	55,271
Net book value:				
31 December 1990	16,501	59,870	59,852	136,223
31 December 1989	19,868	68,108	68,607	156,583

Leasehold land and buildings comprises £3,235,000 (1989: £3,485,000) held on long leasehold and £56,635,000 (1989: £64,623,000) held on short leasehold. Leased assets (other than leasehold property) included above have a net book value of £843,000 (1989: £1,812,000).

Basis of valuation: Fixtures, fittings and equipment are shown at cost. Land and buildings include certain properties professionally revalued during 1989, by Messrs James Andrew Badger (Surveyors & Valuers), on an open market, existing use basis. Other properties are included at historic cost to the Group. The amount included in respect of revalued properties is £13,226,000 (1989: £16,440,000), the historic net book value of such land and buildings is £7,056,000 (1989: £8,542,000).

Tangible Fixed Assets *continued*

b Company

The movement in the year was as follows:

	Short Leasehold Property	Fixtures Fittings & Equipment	Total
	£000	£000	£000
Cost or valuation			
Beginning of year	289	934	1,223
Additions	140	182	322
Disposals	(222)	(408)	(630)
End of year	207	708	915
Depreciation			
Beginning of year	102	365	467
Charge	73	289	362
Disposals	(148)	(225)	(373)
End of year	27	429	456
Net book value:			
31 December 1990	180	279	459
31 December 1989	187	569	756

11 **Fixed Asset Investments**

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

	Group			Company
	Associated Undertakings	Other Investments	Total	Subsidiary Undertakings
	£000	£000	£000	£000
Beginning of year	17,808	1,966	19,774	353,140
Additions	–	–	–	107,055
Share of profits of associated undertakings	2,634	–	2,634	–
Transferred to current asset investments (note 14)	(6,485)	–	(6,485)	–
Reclassification of investments	643	(643)	–	–
Exchange adjustments	(3,164)	(216)	(3,380)	–
End of year	11,436	1,107	12,543	460,195

Included within Company additions are amounts arising due to the capitalisation of inter-company loans.

Information on the Company's principal operating subsidiary undertakings and divisions is shown in note 22.

12 Stocks and Work in Progress

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

	Group	
	1990	1989
	£000	£000
Raw materials and consumables	873	561
Work in progress	58,923	88,634
Finished goods and goods for resale	2,359	1,809
	61,953	91,004

13 Debtors

The following are included in the net book value of debtors.

Amounts falling due within one year

	Group		Company	
	1990	1989	1990	1989
	£000	£000	£000	£000
Trade debtors	491,187	532,652	–	–
ACT recoverable	7,428	7,903	4,756	7,560
Corporate income taxes recoverable	5,160	13,156	103	3,870
VAT and sales taxes recoverable	10,080	4,700	132	180
Other debtors	35,039	28,165	458	580
Prepayments and accrued income	42,424	42,998	320	92
Amounts owed by subsidiary undertakings	–	–	58,752	77,693
	591,318	629,574	64,521	89,97[illegible]
Amounts falling due after more than one year.				
Other debtors	9,614	11,955	–	–
Prepayments and accrued income	5,302	7,249	–	–
Amounts owed by subsidiary undertakings	–	–	–	202,083
	14,916	19,2[illegible]4	–	202,083
Total debtors	606,234	648,778	64,521	292,058

14 Investments

The following are included in the net book value of investments.

	Group	
	1990	1989
	£000	£000
Treasury bonds listed overseas, at cost	–	3,80[illegible]
Unlisted investments, at cost	2,194	[illegible]
Investment listed in the UK	6,485	
	8,679	6,[illegible]

The investment listed in the UK represented the Group's 22.9 per cent holding in Abbott Mead Vickers plc and is shown at cost plus share of profits since acquisition. The investment was sold in February 1991 for £7,708,000

15 **Creditors: Amounts falling due within one year**

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

	Group		Company	
	1990	1989	1990	1989
	£000	£000	£000	£000
Bank loans and overdrafts (note 16)	63,497	117,439	12,996	30,408
Unsecured loan notes	4,413	–	4,413	–
Trade creditors	560,298	605,176	–	–
Taxation and social security	80,342	99,351	13,626	7,500
Due to vendors of acquired companies	19,714	11,691	–	–
Dividends payable and proposed	–	12,839	–	12,839
Deferred income	40,027	59,224	–	–
Other creditors and accruals	217,397	244,138	11,612	11,396
	985,688	1,149,858	42,647	62,143

16 **Creditors: Amounts falling due after more than one year**

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

	Group		Company	
	1990	1989	1990	1989
	£000	£000	£000	£000
Bank loans	451,916	426,470	10,000	81,100
Unsecured loan notes	7,930	15,066	1,170	7,175
Corporate income taxes payable	24,164	5,933	6,159	–
Due to vendors of acquired companies	1,611	1,219	–	–
Other creditors and accruals	49,026	86,930	1,171	–
	534,647	535,618	18,500	88,275

In April 1991, the Group entered into a new credit agreement with a syndicate of international banks. The terms of this agreement have been incorporated into these accounts where appropriate.

Under the agreement, term borrowings of US$604.5 million assumed on the acquisitions of JWT Group, Inc. and The Ogilvy Group, Inc. are repayable in semi-annual instalments over the four years commencing June 1993. Interest is payable at a variable rate linked to US$ LIBOR and for a significant proportion of the borrowings is capped for the next three years.

The credit agreement which incorporates certain new covenants has also consolidated certain of the Group's existing uncommitted working capital and other medium term loans into a new committed medium term facility. The majority of this facility is to be repaid or refinanced by June 1993.

Borrowings under the credit agreement are secured by pledges of the issued share capital of the majority of the Group's subsidiary undertakings.

The unsecured loan notes are repayable during the years 1991 to 1997. Certain of the notes carry warrants to subscribe for Ordinary shares of the Company (note 18).

Analysis of bank loans and unsecured loan notes by years of repayment:

	Group		Company	
	1990	1989	1990	1989
	£000	£000	£000	£000
Within 1-2 years	2,131	45,921	–	5,076
Within 2-5 years	310,586	218,504	11,170	62,670
Over 5 years	146,329	177,111	–	20,529
	459,046	441,536	11,170	88,275

17 **Provisions for Liabilities and Charges:**

Provisions for liabilities and charges comprise:

	Group		Company	
	1990	1989	1990	1989
	£000	£000	£000	£000
Deferred taxation	34,664	41,721	–	9,076
Property	39,757	54,691	–	–
Pension and other	40,702	54,758	–	–
Preference dividends	2,958	–	2,958	–
	118,081	151,170	2,958	9,076

Deferred tax has been provided to the extent that the directors have concluded, on the basis of reasonable assumptions and the intentions of management, that it is probable that liabilities will crystallise. There is no material unprovided deferred tax at 31 December 1990 and no provision has been made for tax that would arise on the remittance of overseas earnings. At 31 December 1990, the provision for deferred taxation comprises current timing differences of £11,104,000 and non-current provisions of £23,560,000.

Property provisions comprise amounts set aside in respect of property leases assumed on acquisition of subsidiary undertakings which entail commitments in excess of foreseeable requirements.

Pension and other provisions includes £29,586,000 in respect of pension obligations.

Provision has been made for dividends on the 8.25p (net) Convertible Cumulative Redeemable Preference shares (note 6) which fall due in respect of 1990 but which have not yet been paid.

The movement in the year on Group and Company provisions comprises:

	Group				Company	
	Deferred Taxation	Property	Pension & Other	Preference Dividends	Deferred Taxation	Preference Dividends
	£000	£000	£000	£000	£000	£000
Beginning of year	41,721	54,691	54,758	–	9,076	–
Charged (credited) to profit and loss account	748	–	4,073	2,958	(6,086)	2,958
Released unused	–	–	(777)	–	–	–
Utilised	–	(6,411)	(9,365)	–	–	–
Transferred to current taxation	(3,940)	–	–	–	(2,990)	–
Exchange adjustments	(3,865)	(8,523)	(7,987)	–	–	–
End of year	34,664	39,757	40,702	2,958	–	2,958

Called up Share Capital

	1990 £	1989 £
Authorised		
106,000,000 (1989: 106,000,000) Ordinary shares of 10p each	10,600,000	10,600,000
214,000,000 (1989: 214,000,000) 8.25p (net) Convertible Cumulative Redeemable Preference shares of 10p each	21,400,000	21,400,000
200 (1989: 200) Deferred Redeemable Convertible shares of £1 each	200	200
10,000 (1989: 10,000) "A" Ordinary Convertible shares of 10p each	1,000	1,000
10,075 (1989: 10,075) "B" Ordinary Convertible shares of 10p each	1,007	1,007
	32,002,207	32,002,207
Allotted, called-up and fully-paid		
43,265,814 (1989: 41,098,703) Ordinary shares of 10p each	4,326,581	4,109,870
213,826,148 (1989: 213,932,439) 8.25p (net) Convertible Cumulative Redeemable Preference shares of 10p each	21,382,615	21,393,244
200 (1989: 200) Deferred Redeemable Convertible shares of £1 each	200	200
5,000 (1989: 10,000) "A" Ordinary Convertible shares of 10p each	500	1,000
10,000 (1989: 10,075) "B" Ordinary Convertible shares of 10p each	1,000	1,007
	25,710,896	25,505,321

During the year the Company allotted the following shares:

– 1,885,528 Ordinary shares with a nominal value of £188,552 and at a premium of £10,241,905 in consideration for the acquisition of subsidiary undertakings.

– 281,583 Ordinary shares with a nominal value of £28,159 and at a premium of £1,553,512 in respect of the conversion of Convertible Preference shares and Convertible Unsecured Loan Notes and of the exercise of share options held by employees of the Group and of Subscription Warrants.

The Convertible Cumulative Preference shares are ordinarily convertible at the option of the holder on 30 June and 31 December in each of the years up to and including 2009 on the basis of £14.70 in nominal amount of Ordinary shares for every £100.00 in nominal amount of Convertible Preference shares held. After conversion of 75% of the Convertible Preference shares, the Company has the right to require the conversion of the outstanding balance.

The Deferred and "A" and "B" Convertible shares were issued to the vendors of certain companies acquired during 1986 and 1987 and are convertible into Ordinary shares of the Company in the period up to 31 May 1992. The number of Ordinary shares into which the Deferred or Convertible Shares may be converted is dependent upon the level of future profitability of the company acquired.

5,044,891 Subscription Warrants are in issue each of which carry the right to subscribe for one Ordinary share of the Company on 30 June in each of the years 1991 to 1996 inclusive at a subscription price of 1000p. Additionally, certain of the Group's unsecured loan notes carry warrants to subscribe for 875,000 Ordinary shares of the Company at a price of 890p per share.

Options have been granted under the WPP Group plc Executive Share Option Scheme over a total of 2,891,115 (1989: 3,127,428) 10p Ordinary shares, exercisable between 1991 and 2001 at prices per share ranging from 358p to 755p.

Notes to the Accounts

19 **Reserves**

a) Group

Movements during the year were as follows

	Share Premium	Goodwill Reserve	Other Reserves	Profit & Loss Account
	£000	£000	£000	£000
Balance at beginning of year	192,721	(797,811)	196,247	40,927
Premium on shares issued during the year (note 18)	1,554	10,242		
Goodwill arising on consolidation written off (note 20)		(41,848)		
Revaluation of tangible assets			(1,688)	
Currency translation movement			97,396	
Retained profit for the year				32,920
Balance at end of year	194,275	(829,417)	291,955	73,847

Other reserves at 31 December 1990 comprise: Capital Reserve £1,847,000; Currency Translation Reserve £108,898,000; and Revaluation Reserve £181,210,000.

b) Company

Movements during the year were as follows.

	Share Premium	Merger Reserve	Profit & Loss Account
	£000	£000	£000
Balance at beginning of year	192,721	254,822	24,052
Premium on shares issued during the year (note 18)	1,554	10,242	
Loss for the financial year			(15,616)
Dividends paid and provided (notes 6 and 17)			(17,648)
Balance at end of year	194,275	265,064	(9,212)

In the 1987 accounts, and under court sanction, the balance on the share premium account at that time amounting to £211,090,000 was cancelled and transferred to a non-distributable special reserve. For convenience this reserve has been disclosed above with the merger reserve.

20 **Acquisitions**

In 1990 the Group made several acquisitions to strengthen its geographic and functional coverage in specific areas. No material fair value adjustments were necessary in respect of these acquisitions.

These acquisitions, together with amounts paid in respect of earlier acquisitions, gave rise to goodwill of £41,848,000 (note 19).

21 **Guarantees and other Financial Commitments**

a) Capital Commitments

At the end of the year, capital commitments were

	Group	
	1990	1989
	£000	£000
Contracted for but not provided for	392	2,040
Authorised but not contracted for	417	2,127
	809	4,167

b) Contingent Liabilities – Acquisitions

Acquisitions made in 1990 together with earlier acquisitions (excluding JWT Group, Inc. and The Ogilvy Group, Inc.) may give rise to further consideration resulting in goodwill, in addition to the initial payments referred to above. Any further payments will be payable in cash and Ordinary shares of the Company dependent upon the level of profitability of these acquired entities over various periods up to 31 December 1995. It is not practicable to estimate with any reasonable degree of certainty the total additional consideration to be paid. However, the directors estimate that the maximum additional payments which may be payable in respect of all subsidiary undertakings, including amounts accrued in the balance sheet at 31 December 1990, would be:

	Payable in		
	Shares	Cash	Total
	£000	£000	£000
Within one year from 31 December 1990	12,951	26,307	39,258
Within two to five years	35,978	35,278	71,256
	48,929	61,585	110,514

The above analysis assumes that the vendors choose cash rather than shares where the option exists. The analysis also assumes that the Company issues shares where the option exists, although in many cases it has the right to settle with cash if it so wishes. Consideration received as shares must generally be retained by the vendors for a minimum period of three years.

Taking into account only profits from those companies entitled to receive future payments, there would be no reduction in the net assets of the Group over this period. The cashflow projections for these companies for the same period indicate a net cash generation after taxation considerably in excess of these maximum contingent cash payments. It is not possible to estimate accurately the effect of future considerations payable in respect of these acquisitions on the Group's fully diluted earnings per share (note 7).

c) Credit Agreement Fees

Under the terms of the Group's credit agreement (note 16), the following fees may become payable to the lenders:

(i) a success fee payable after June 1993 and calculated by reference to a notional pool of four million Ordinary share options of the Company. The amount of the fee is determined by the excess of the market value of the Ordinary shares at the date of notional exercise over the strike price which is a minimum of £2.50 and a maximum of £4.50. The strike price is subject to an upward adjustment for each $1 million by which the Group's credit facilities have been reduced by June 1993, potentially reducing the fee payable. The maximum fee payable is £10 million.

(ii) a fee payable in June 1993 and calculated by reference to the amount of contingent acquisition payments settled, at the Company's option, by cash rather than shares to the extent that further cash is not raised by the Company to fund such cash payments. The maximum fee payable is £4 million

No provision has been made for these fees in the accounts

Notes to the Accounts

d) Lease Commitments

The Group has entered into non-cancellable leases in respect of plant and machinery The total annual rental (including interest) for 1990 was £14,458,000 (1989: £8,428,000). The lease agreements provide that the Group will pay all insurance, maintenance and repairs

In addition, the Group leases certain land and buildings on short term and long term leases. The annual rental on these leases for 1990 was £72,085,000 (1989, £57,822,000). The rents payable under these leases are subject to renegotiation at various intervals specified in the leases The Group pays all insurance, maintenance and repairs of these properties.

The minimum annual rentals payable in 1991 under the foregoing leases are as follows.

	Group	
	Plant and Machinery	Property
	£000	£000
In respect of operating leases which expire:		
– within 1 year	3,477	5,139
– within 2-5 years	9,094	24,073
– after 5 years	609	37,206
	13,180	66,418

e) Pension Arrangements

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

	Group	
	1990	1989
	£000	£000
Defined contribution schemes	17,788	13,831
Defined benefit schemes	4,962	2,971
	22,750	16,802

Where defined benefit schemes exist the pension cost is assessed in accordance with the advice of qualified actuaries using, in general, the projected unit credit method. The latest actuarial assessments of the schemes were undertaken within the last two years The major assumptions used by the actuaries were that in general the return on plan assets would be 9% and that both salary increases and pension increases would be 5%. The market value of the plan assets totalled £88m, and the actuarial value of the assets was sufficient to cover approximately 113% of the benefits which had accrued to members after allowing for expected future increases in salaries

Notes to the Accounts

22 Principal Operating Subsidiary Undertakings and Divisions

The Company's principal subsidiary undertakings and divisions at 31 December 1990 are shown below together with a note of their activity and country of operation or registration. Companies or divisions marked with an * were acquired during the year. The Company directly or indirectly held 100% (except where indicated) of each class of the issued shares of the subsidiary undertakings

Company	Activity	Country
Strategic Marketing Services		
The Henley Centre	Strategic Marketing Consultancy	England
Media Advertising		
Cole & Weber	Media Advertising	USA
Conquest Europe	Media Advertising	Europe
J Walter Thompson Company	Media Advertising	USA
LansdownEuro	Media Advertising	England
Ogilvy & Mather Worldwide	Media Advertising	USA
Scali McCabe Sloves (80%)	Media Advertising	USA
Public Relations		
Adams & Rinehart	Public Relations	USA
Carl Byoir Associates	Public Relations	USA
Hill and Knowlton	Public Relations	USA
Ogilvy & Mather Public Relations	Public Relations	USA
Timmons and Co.	Lobbying and Government Relations	USA
Market Research		
Millward Brown International *	Market Research	England
MRB Group	Market Research	USA
Research International	Market Research	England
Non-Media Advertising		
Coley Porter Bell *	Brand and Corporate Identity Design	England
Business Design Group	Graphics & Design	England
Greaves Hall	Graphics & Design	England
McColl Group	Graphics & Design	England
Oakley Young	Graphics & Design	England
SampsonTyrrell	Graphics & Design	England
SBG Partners	Graphics & Design	USA
The Walker Group/CNI	Graphics & Design	USA
VAP Group	Graphics & Design	England
P&L International Vacationers	Incentive & Motivation	England
The Grass Roots Group (50%)	Incentive & Motivation	England
Einson Freeman	Sales Promotion	USA
Mando Marketing	Sales Promotion	England
Scott Stern Associates	Sales Promotion	Scotland
Promotional Campaigns	Sales Promotion Consultancy	England
The Marketing Consultancy	Sales Promotion and Marketing Consultancy	England
MetroVideo	Audio Visual Products/Services	England

Company	Activity	Country
Specialist Communications		
A Eicoff & Co	Direct Marketing	USA
Anspach Grossman Portugal	Corporate Identity	USA
Brouillard Communications	Business to Business Advertising	USA
Entertainment Grou,	Entertainment Industry Advertising	USA
EWA	Database Marketing	England
HLS CORP	Specialist Healthcare Advertising	USA
J Walter Thompson Direct	Direct Marketing	USA
J Walter Thompson Healthcare	Healthcare Advertising	USA
Mendoza, Dillo a & Asociados	Hispanic Advertising	USA
Ogilvy & Mather Direct	Direct Marketing	USA
Pace Communications Group	Real Estate Marketing	USA
Reese Communications Companies	Public Affairs	USA
Seiniger Advertising	Motion Picture Advertising	USA
Thomas G Ferguson Associates*	Specialist Healthcare Advertising	USA
Thompson Recruitment Advertising	Recruitment Advertising	USA
Manufacturing		
Alton Wire Products	Manufacture of Wire Products	England
North Kent Plastic Cages	Manufacture of Wire and Sheet Metal Products	England
Staffordshire Holloware	Manufacture of Aluminium Products	England
Refrigeration (Bournemouth)	Sale and Installation of Shopfitting Equipment	England

*** Non-coterminous year-ends**

The following subsidiary undertakings have year-ends other than 31 December:

Millward Brown International Plc	31 March
Dawestyle Limited	31 March
Prophaven Limited	30 November

Millward Brown International was acquired on terms whereby further consideration is payable based on the audited profits of Millward Brown over the five years ending 31 March 1994; accordingly the financial year-end has not been changed. The 1990 Group financial statements include accounts in respect of Millward Brown prepared for the year ended 31 December 1990.

Neither Dawestyle nor Prophaven trade.

Notice of Annual General Meeting

Notice is hereby given that the seventeenth Annual General Meeting of the members of WPP Group plc will be held at The Savoy Hotel, The Strand, London WC2 on 24 June 1991 at 12.00 noon when the following Ordinary business will be proposed

1 To receive and, if approved, adopt the directors' report and audited statement of accounts for the year ended 31 December 1990

2 To re-elect as directors
a Mr J R Symonds
b Mr S H M King

3 To re-appoint Messrs Arthur Andersen & Co as auditors of the Company and to authorise the directors to fix their remuneration

4 That the directors be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 (the "Act") to allot equity securities (within the meaning of Section 94 of the Act) pursuant to the authority conferred upon them by paragraph 1(C)(3) of a Special Resolution of the Company passed on 15 June 1989 as if sub-section (1) of Section 89 of the Act did not apply to any such allotment provided that this power shall be limited to the allotment of equity securities pursuant to the terms of any employees' share option scheme approved by the members of the Company in general meeting and otherwise up to an aggregate nominal value of £216,000 and that this power shall expire at the Annual General Meeting of the Company to be held in 1992 or on the expiry of the 15 month period following the passing of this Resolution (whichever is the earlier) but so that this power shall allow the Company, before the expiry of this power to make offers, agreements or such other arrangements which would or might require equity securities to be allotted after such expiry and so that the directors may, notwithstanding such expiry, allot equity securities in pursuance of such offers, agreements or other arrangements as if the power conferred hereby had not expired.

5 To transact any other business proper to an Annual General Meeting

By Order of the Board
C F Schulten
Secretary

Industrial Estate
Hythe, Kent CT21 6PE
24 May 1991

Notes

A member entitled to attend and vote at the Meeting may appoint one or more proxies to attend and, on a poll, vote instead of him. A proxy need not also be a member.

To be valid the form of proxy and the power of attorney or other authority, if any, under which it is signed or notarially certified or office copy of such power or authority, should reach the offices of the Registrars of the Company at least forty-eight hours before the time appointed for holding the meeting or any adjournment thereof.

The following documents will be available at the registered offices of the Company on any weekday except Saturday during normal business hours and at the place of the meeting for a period of fifteen minutes before and during the meeting.

(i) A statement of the transactions of each director and his family interests in the shares of the Company.

(ii) A copy of the Company's contracts of service pertaining to Mr R E Lerwill, Mr David Ogilvy, Mr G C Sampson and Mr M S Sorrell. There are no other written directors' service contracts of more than one year's duration.

Financial Calendar

Interim Statements for half-years ending 30 June are issued in August.

Preliminary Announcements of results for financial years ending 31 December are issued in March.

Annual Reports are posted to shareholders in May.

Annual General Meetings are held in London in June.

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WARRANTS	> 52946
NASDAQ	> WPPGY
REUTERS	> LJEW
REUTERS 2000	
ORDINARY	> WPPL.L
CONVERTIBLES	> WPPLp.L
WARRANTS	> WPPL/ws.L

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