WPP Group plc

Annual Report & Accounts

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

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Strategic Vision

It is the aim of WPP Group:

To understand the increasingly complex marketing needs of our clients at every level from local to worldwide.

To provide those clients with a comprehensive, and when appropriate, integrated range of marketing services of the highest quality: both strategically and tactically.

To ensure that each service provided returns more in value than its cost to every client.

To build and maintain companies of such excellence that they provide the most stimulating career opportunities for talented professionals in all disciplines.

To provide those professionals with rewards and incentives which encourage the greatest number to a sense of ownership.

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

Financial Strategy

To reduce indebtedness and strengthen the Group's capital structure for the benefit of all shareholders.

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

Progress to date

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 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.

1991 was the first year since 1983 that profits fell and reflected the particularly severe recession in the Company's most significant markets in the United States and the United Kingdom.

Financial Summary

	1991 £000	1990 £000	% Increase/ (Decrease)
Turnover	5,075,283	5,460,454	(7)
Revenue	1,204,418	1,264,100	(5)
Trading Profit	84,170	132,945	(37)
Profit before Taxation	56,105	90,040	(38)
Profit after Taxation	32,541	53,664	(39)
Attributable Profit	13,407	32,920	(59)
Basic Earnings per Ordinary Share	27.9p	78.1p	(64)
Basic Earnings per ADS	$0.99	$2.79	(65)
Dividend per 10p Ordinary Share	–	–	n/a
Dividend per ADS	–	–	n/a
Trading Margins	7.0%	10.5%	–
Pre-Tax Margins	4.7%	7.1%	–

Revenue (£000)

91	1,204,418
90	1,264,100
89	1,005,453
88	547,129
87	284,082
86	23,685

Profit before Tax (£000)

91	56,105
90	90,040
89	75,039
88	40,318
87	14,117
86	1,757

Basic Earnings per Share

91	27.9p
90	78.1p
89	73.0p
88	54.3p
87	32.1p
86	13.2p

Revenue per Employee (£)

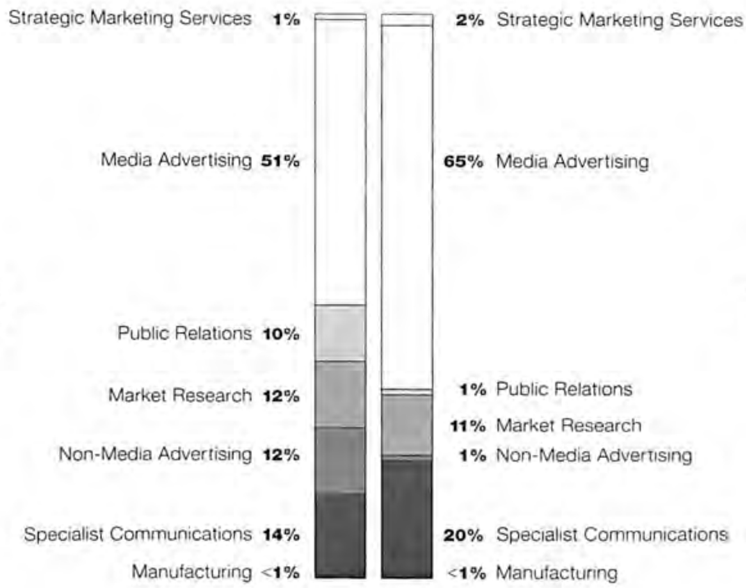
91	56,764
90	55,958
89	57,232
88	52,391
87	52,941
86	55,599

Profit before Tax per Employee (£)

91	2,644
90	3,986
89	4,271
88	3,860
87	2,631
86	4,124

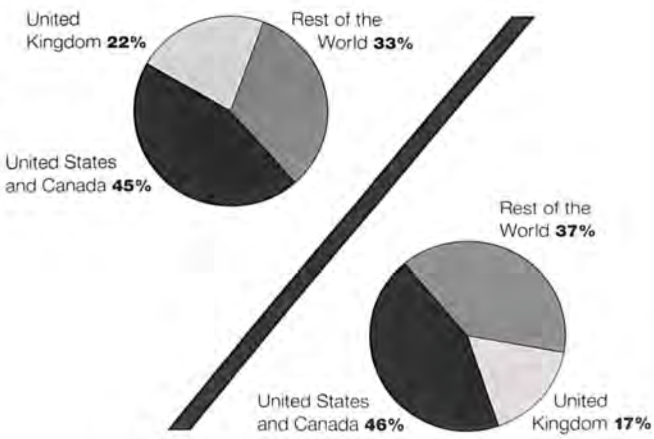
Revenue by Activity

Trading Profit by Activity



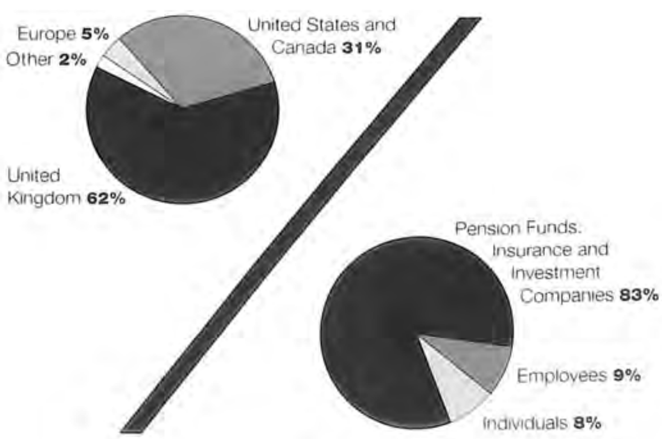
Revenue by Geography

Trading Profit by Geography



Shareholders by Country

Shareholders by Type



Chairman's Statement

Thank You

I started one of our advertising agencies 43 years ago. Some of those years were easier than others. Without doubt, 1991 was the most difficult of all – for all our companies in all our disciplines.

In 1991 most companies cut back their expenditure on marketing services and a lot subjected their agencies to "review". One invited 64 agencies to compete for his account; we won that one, but we didn't win them all.

In this pervasive atmosphere of anxiety, it isn't easy to perform miracles. But throughout the world, the people in our companies went on servicing existing clients, bringing in new ones and creating work as good as I have ever seen.

I admire their guts.

Our earnings per share declined for the first time since WPP entered the marketing services industry six years ago. But the decline would have been a lot worse if our people had not performed so nobly. We owe them our gratitude.

David Ogilvy

David Ogilvy *Chairman*

Chief Executive's Review

Summary of Results

1991 revenues fell by 4.7% from £1.264 billion to £1.204 billion.

1991 profit before tax fell by 38% from £90.0 million to £56.1 million.

The 1991 profit figures include net exceptional profits of £18 million principally comprising a release of excess provisions of £34 million less reorganisation and rationalisation expenses of £15 million. 1991 underlying profits were therefore approximately £38 million.

Basic earnings per share fell by 64% from 78.1p to 27.9p.

As last year, due to covenants given to the Group's lenders, there were insufficient distributable reserves for WPP to pay a dividend on either its preference or ordinary shares for 1991.

On a directly comparable basis, operating margins fell from 10.5% to 7.0%. To a large extent, this reflected the Group's determination to maintain high standards of client service during difficult times and was ameliorated by a reduction in Group plc personnel by 17% to 88 people.

On the same basis, Group pre-tax margins (after net interest paid of £46 million) fell from 7.1% to 4.7%. The helpful impact of lower dollar interest rates was more than offset by higher debt levels and higher banking margins following 1991's financial restructuring.

At the year-end, the Group had net debt of £334 million compared with £297 million in 1990 (£310 million on a constant currency basis). Negative shareholders' funds of £258 million compared with negative shareholders' funds of £256 million in 1990 in constant currencies; retained profits in 1991 were offset by additional goodwill arising from earnout payments.

The Group tax rate on profits including exceptional items was 42.0% in 1991 compared with 40.4% in 1990.

Background to Results

1991 was an extremely difficult year and the first since 1983 in which the Company's profitability failed to improve. With the end of the Gulf War in March 1991, it was believed that prospects for recovery were good in both our major markets of the United States and the United Kingdom. However, these prospects did not materialise. Client expenditures at best remained static and in many cases did not meet expected levels.

As a result, the Group's budgeted level of revenues was not achieved; and, although significant adjustments were made to the cost base, costs could not responsibly be reduced sufficiently in the short term for margins to be protected – particularly after the inclusion of reorganisation and rationalisation costs.

These adverse factors affected the whole of the marketing services sector and many of its clients; and, to a significant extent, the continuing profitability of the Group is an indication of the strength of the Group's business franchises and the quality of the people who constitute them.

Review of Operations

1991 revenues were 4.7% down on the previous year, 5.2% in constant currencies. Operating costs, including reorganisation and rationalisation expenses, were roughly the same as the previous year. Excluding these expenses costs were down 1%.

Staff levels fell throughout the year, and by the year end were 8% down against the previous year: from 22,308 to 20,514. Salary costs, however, in constant currencies, showed a decline of only 2.3%. When clients reduce levels of expenditure, they continue to expect at least the same levels of service. Accordingly, average salaries rose as higher quality staff were retained or hired and outstandingly successful offices rewarded.

Some outstanding performances were achieved and deserve recognition. Functionally, market research and some direct marketing, design, sales promotion and specialist communications companies met their targets. Geographically, stronger performances were registered in Continental Europe and South East Asia.

Revenues by sector fell by 13% in non-media advertising; by 11% in public relations; by 3% in media advertising; and by 2% in specialist communications. They were flat in market research and manufacturing; and rose by 8% in strategic marketing services.

Geographically, revenues fell by 9% in the United States, 5% in the United Kingdom and rose by 1% in the Rest of the World.

In 1991, the Group added net new business revenues of over £149 million ($262 million) equivalent to net billings of £995 million ($1,750 million).

The Goldman Sachs Advertising Industry Survey, published in February 1992, ranks the Group first of the five publicly quoted holding companies surveyed in terms of net new business gained in 1991.

WPP's Six Service Sectors

Strategic Marketing Services
Social, economic and market forecasting; development of corporate strategy; econometric modelling; environmental changes tracked through regular surveys.

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

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.

Public Relations
National and international corporate, financial and marketing communications; crisis management; public affairs and management counselling.

Non-Media Advertising

Identity, Design and Architecture
Architectural services; exhibitions; furniture, industrial, product, environmental and retail design; packaging; corporate identity; marketing and corporate literature.

Incentive & Motivation
Business seminars and entertainment; incentive 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 and conferences; equipment installation, servicing and hire; presentations, product launches and trade shows; production, editing and transfer

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.

Media Advertising

In 1991 Ogilvy & Mather Worldwide included Cole & Weber, Ogilvy Direct – the largest direct marketing agency in the world – Ogilvy Adams & Rinehart and Promotional Campaigns Worldwide. Total revenues fell by 5% and operating costs by 2% (despite reorganisation and rationalisation costs accounting for 2% of total). Operating margins were 8% excluding the surplus property cost of Worldwide Plaza in New York.

Ogilvy & Mather Worldwide generated net new business billings of over £271 million ($478 million).

J Walter Thompson Company's revenues fell by 3% and operating costs rose by 1% including reorganisation and rationalisation costs of 1%. Operating margins were 6.3%.

J Walter Thompson Company generated net new business billings of over £251 million ($443 million).

Before reorganisation and rationalisation costs and including the profit on the sale of its shareholding in Abbott Mead Vickers PLC, Scali, McCabe, Sloves Inc. made a pre-tax profit. Revenues fell by 9% and operating costs were flat. Operating issues have now been addressed and recent significant new business wins should result in an improvement in profitability in the near future.

Conquest Europe's revenues were flat and operating costs rose by 8%.

Public Relations

The public relations sector of our business was significantly affected by the Gulf War and the recession.

Hill and Knowlton's revenues fell by 11% and operating costs by 2%. As a result, after reorganisation and rationalisation costs, Hill and Knowlton made a loss.

Market Research

Research International had another excellent year. Revenues rose by 5% and operating costs by only 1%. As a result, profits almost doubled for the second successive year.

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

At MRB Group, strong performances were registered at MRB UK and Japan MRB.

Strategic Marketing Services, Non-Media Advertising and Specialist Communications

Several of our companies in these sectors performed particularly well – including Anspach Grossman Portugal, Thomas Ferguson Associates and Mando Marketing. All other companies performed reasonably well with the exception of SBG in packaging design and McColl Group and Walker Group/CNI which were both severely affected by difficulties in the retail and property markets.

Manufacturing

Our manufacturing division had another successful year, with profits of over £0.3 million ($0.5 million).

Business Mix and Growth

The Group employs 20,514 people in 625 offices in 64 countries.

We service over 300 of the Fortune 500 companies; and 868 major national or multinational clients in two or more functions. This contrasts with 830 last year and reflects the increasing opportunity for cross referral between activities both nationally and internationally.

The Group works with 330 clients in three or more services (311 at December 1990); and with 155 clients in five or more countries (149 at December 1990).

Sales and Profits by Function

Functional divisions in 1991 accounted for the following proportions of Group sales and operating profit:

Strategic Marketing Services, 1% and 2%; Media Advertising, 51% and 65%; Public Relations, 10% and 1%; Market Research, 12% and 11%; Non-Media Advertising, 12% and 1%; and Specialist Communications, 14% and 20%. Manufacturing still accounts for under 1% of both.

Sales and Profits by Geographical Area

Geographical regions in 1991 accounted for the following proportions of Group sales and operating profit:

United States and Canada, 45% and 46%; United Kingdom, 22% and 17%; and the Rest of the World, 33% and 37%.

Clients using 2 or more WPP Service Sectors

1991	**868**
1990	**830**
1989	**690**
1988	**325**
1987	**78**

Clients using 3 or more WPP Service Sectors

1991	**330**
1990	**311**
1989	**255**
1988	**125**
1987	**41**

Clients served in 5 or more countries

1991	**155**
1990	**149**
1989	**129**
1988	**60**
1987	**37**

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 Czechoslovakia
13 Denmark
14 Dominican Republic
15 Ecuador
16 Eire
17 El Salvador
18 Finland
19 France
20 Germany
21 Greece
22 Guatemala
23 Honduras
24 Hong Kong
25 Hungary
26 India
27 Indonesia
28 Italy
29 Japan
30 Kenya
31 Korea
32 Kuwait
33 Malaysia
34 Mexico
35 Myanmar
36 Netherlands
37 New Zealand
38 Nigeria
39 Norway
40 Pakistan
41 Panama
42 Peru
43 Philippines
44 Poland
45 Portugal
46 Puerto Rico
47 Saudi Arabia
48 Singapore
49 South Africa
50 Russian Federation
51 Spain
52 Sri Lanka
53 Sweden
54 Switzerland
55 Taiwan
56 Thailand
57 Togo
58 Turkey
59 United Arab Emirates
60 United Kingdom
61 United States
62 Uruguay
63 Venezuela
64 Vietnam

Cross Referrals

The benefits of cross referrals continue to grow. In 1990, 18% of new business revenues, or \$45 million, came from business opportunities brought from one Group company to another. In 1991, these figures remained at 18% or \$49 million. Moreover, we estimate *potential* revenues of over \$80 million were generated through referral. Greater attention is being given to converting these opportunities and it is hoped that the conversion ratio will continue to increase from the present 60%.

Balance Sheet

At the year-end, net debt totalled £334 million against £297 million at the end of 1990 or £310 million in constant currencies. Net debt averaged £472 million in 1991 against £432 million in constant currencies in 1990, primarily due to cash earnout payments of £21 million. Further earnout payments are estimated to total £70 million in the period 1992-95, of which £39 million are in cash. This compares with a total of £110 million at the end of 1990. In 1991 capital expenditure totalled £19 million against depreciation of £26 million.

The Group traded within its banking covenants in 1991. Long term projections suggest adequate profitability and cash flow to meet its financial needs and obligations. However, budgets for 1992 and actual results for the first quarter suggested little economic recovery. As a result, bank covenants will have to be adjusted and further cash facilities negotiated. Due to the lack of a recovery in the Group's revenues and earnings, debt repayments currently scheduled for 1993 also require renegotiation. These issues are currently under discussion with the Group's banking syndicate, and outline proposals have been formulated and presented to the syndicate. The bank co-ordinating committee supports the principal features of these proposals. The proposals are outlined in Note 23 to the Accounts.

At the same time the Group, with the co-operation of its banking syndicate, is assessing alternative ways of making significant improvements to the Group's capital structure, including through capital restructuring and asset disposals.

Some specific examples of possible asset disposals would be: the sale of Scali, McCabe, Sloves Inc.; the flotation of the Group's Japanese and South East Asian interests; and the flotation of the Group's market research business. Meanwhile, progress continues to be made in operational ways of improving profitability and cash flow.

Resolution of these financial issues will enable management to concentrate exclusively on maximising the Group's long term performance on behalf of clients, employees, investors and other stakeholders.

Future Prospects

In the first quarter of 1992, Group companies have been awarded a number of significant new assignments, totalling more than £42 million ($75 million) in net revenue or £280 million ($500 million) in net billings.

Despite this, there has been no significant upturn in business in the first three months of 1992, although the Group has operated in accordance with its budget. Revenues were approximately the same as in the previous year and operating costs were slightly down.

Staff costs account for about 55% of revenues. A thorough review of salary costs has shown that fixed salary levels throughout the Group are broadly in line with or slightly above marketing services industry levels.

Comprehensive compensation policies are being introduced throughout the Group which are designed to increase the relative significance of performance-related, short and long term incentives.

Office costs are the Group's second largest cost category accounting for about 10% of revenues. As a result of the recession and the consequent reduction in staff numbers, the Group has considerable excess and unlet property. Every effort is being made to sublet or otherwise dispose of this excess. It is primarily located in the depressed property markets of New York and London; it amounts to approximately 10% of the Group's worldwide office space; and its cash flow cost is approximately $20 million a year.

Of the Group's functional divisions, advertising and public relations are still the most affected by the recession. Retail design, real estate advertising, recruitment advertising and some parts of sales promotion also continue to suffer.

Operations performing well include: strategic marketing services; market research; direct marketing; some design, sales promotion and audio visual companies;

and specialist communications companies such as healthcare.

Geographically, trading conditions in the United States, the United Kingdom, Canada, Scandinavia, Australia and New Zealand remain difficult. Better performances are to be found in France, Germany, Spain, The Netherlands, Belgium, Austria and South-East Asia. In the last few months, there has been some improvement in Brazil and Japan.

Many of our clients have set themselves annual profit growth targets of between 5% and 10%. Given the maturity of most of the product markets in which they operate, and the low rates of population growth in their major consumer markets, achievement of such objectives is dependent on a combination of three related actions: revenue growth; cost containment; and acquisition.

Despite the recession, stock market values remain high, particularly in the United States, making acquisitions by our clients no less expensive than they were in the 1980s; and cost cutting has become more and more difficult as opportunities are progressively exhausted. As a result, it seems probable that clients will increasingly concentrate on growing revenues, with increases in market share being the principal contributor to growth objectives. In circumstances of this kind, the demand for marketing services traditionally increases.

Longer term trends will contribute to this demand: we are likely to see continued increases in the speed of technological change; the geographical and functional complexity of our clients' businesses; the fragmentation of communications media; and the power of retail distribution.

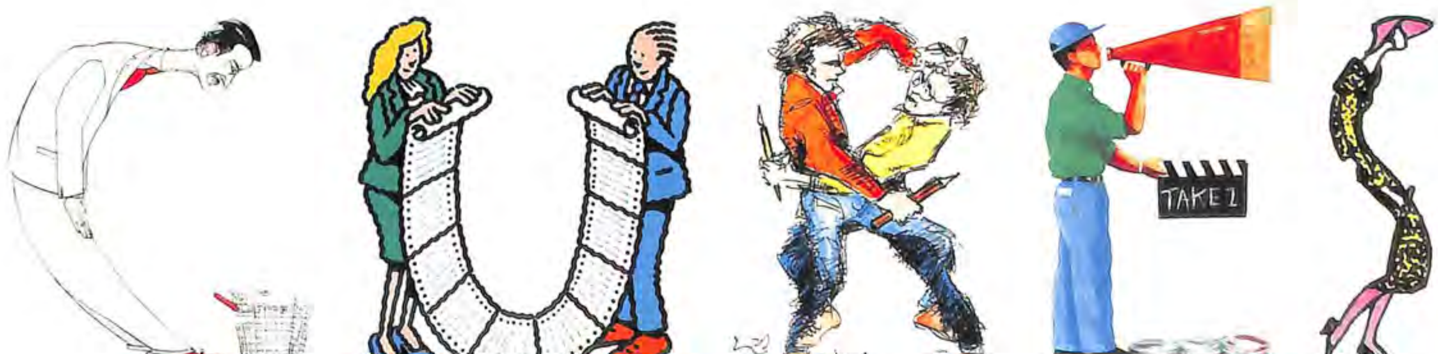
In the absence of economic recovery it is too early in the year to predict its outcome with any confidence.

What is certain, however, is this: given the Group's remarkable functional and geographical strengths, and the continuation of its new business record, it is uniquely placed to capitalise on the recovery when it comes.

Martin Sorrell *Group Chief Executive*

WPP Group Companies

In each WPP Group company, there are some remarkable leaders, characters, individuals. The following pages show just a few of them: the Figures who are even more important than the figures.



Strategic Marketing Services

THE FUTURES GROUP

Robert H. Smith
Chairman and Chief Executive Officer
"The Futures Group specialises in long-range planning and forecasting. We explore risks of strategic choices by examining the prospective developments which make the future different from the past."

HENLEY CENTRE

Bob Tyrrell *Chief Executive*
"Our business is the future: turning understanding of societies, economies and markets into practical strategic options. Our collaborative relationships with clients cover pricing, product development, brand positioning and forecasting issues."

Media Advertising

SCALI, McCABE, SLOVES, INC.

Marvin Sloves *Chairman and CEO*
Sam Scali *President*
"The mission of Scali, McCabe, Sloves, Inc. is very simple. . . to create great advertising, hire professional people who love the advertising business and, after all is said and done, to have treated our employees and clients with dignity and pride."

"Our mission is to spend as little time as possible writing mission statements . . .

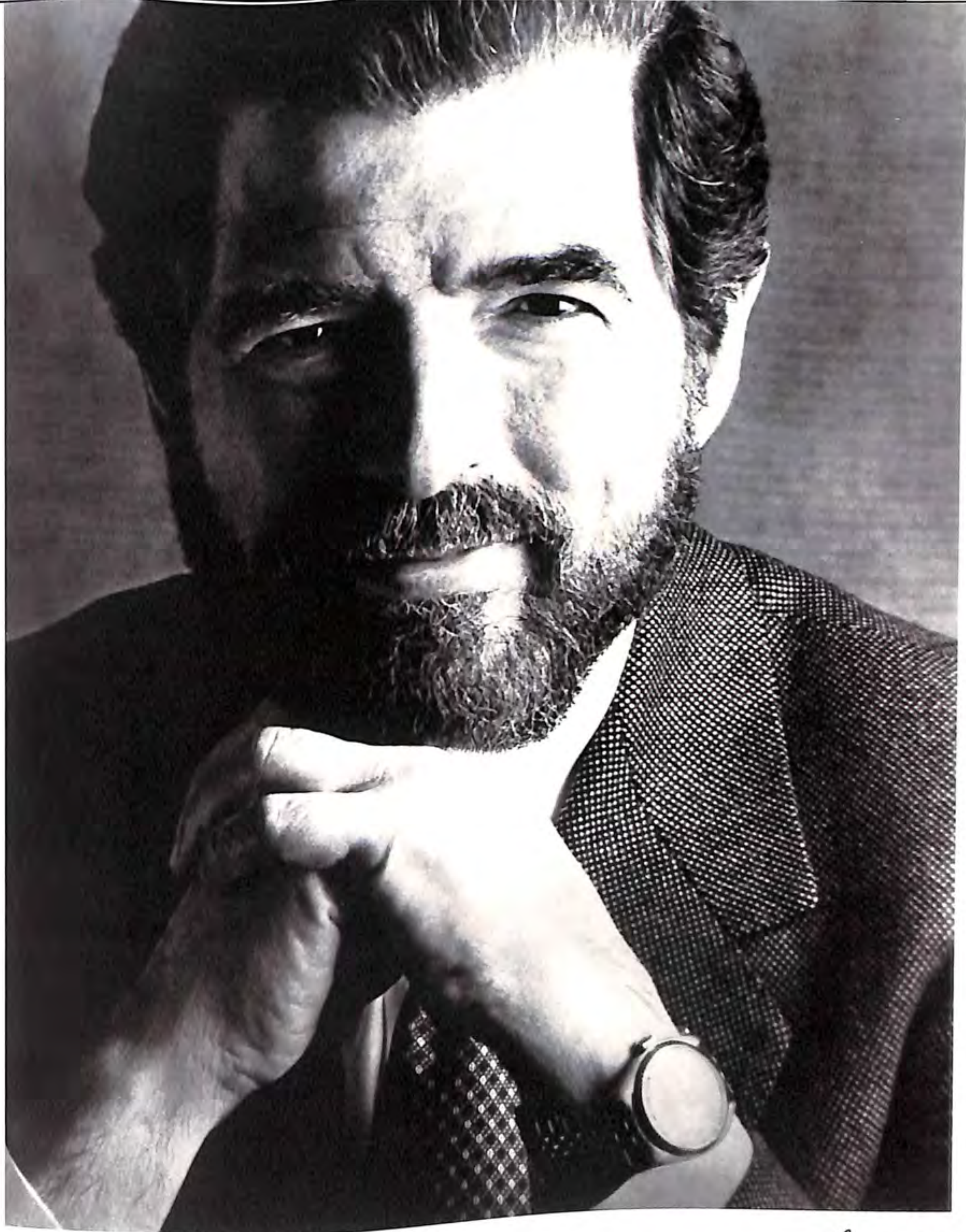
. . . and more time creating ads that cut through."

Cole & Weber

Scott Marshall
President
Mark McNeely
Chairman

Ogilvy & Mather
Worldwide

Charlotte Beers
Chairman and Chief Executive
"OMW's primary mission is to generate sales results for its clients - WE SELL OR ELSE. This commitment is particularly significant as nothing is of more importance to our clients today than hard sales results. The agency has always been well placed to achieve this mission on a global scale because we have an enviable forty-year history of creating advertising that sells in productive combination with the world's largest direct marketing company." OMW has 275 offices in 57 countries offering advertising, direct marketing, public relations, sales promotion and related services.

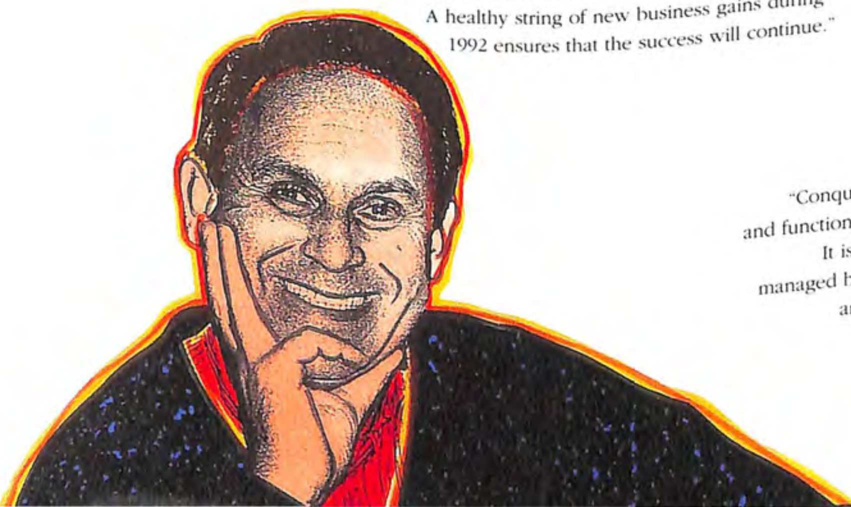


J. Walter Thompson

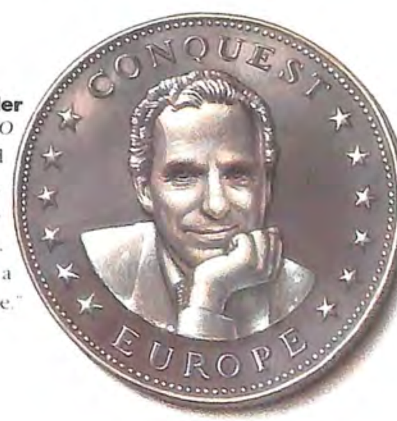
Burt Manning
Chairman and Chief Executive Officer
"Create the most effective, distinctive advertising in the marketplace."

LANSDOWNEURO

Tony Abraham *Chairman and Creative Director*
"A hands-on approach, working with clients as business partners, has enabled LansdownEuro to climb into the UK advertising top 30. A healthy string of new business gains during 1992 ensures that the success will continue."



Jean-Manuel Guyader
President CEO
"Conquest Europe has been conceived and functions as a single agency in Europe. It is structured to service centrally-managed brands whose market is Europe, and to defend local ones within a European perspective."



Public Relations

Carl Byoir & Associates, Inc.

Joseph M. Howell, III
President and Chief Executive Officer

"Our mission is to provide value to our clients: to assist them in senior-level decision making in public relations and public affairs, and to help them shape and implement effective communications strategies."

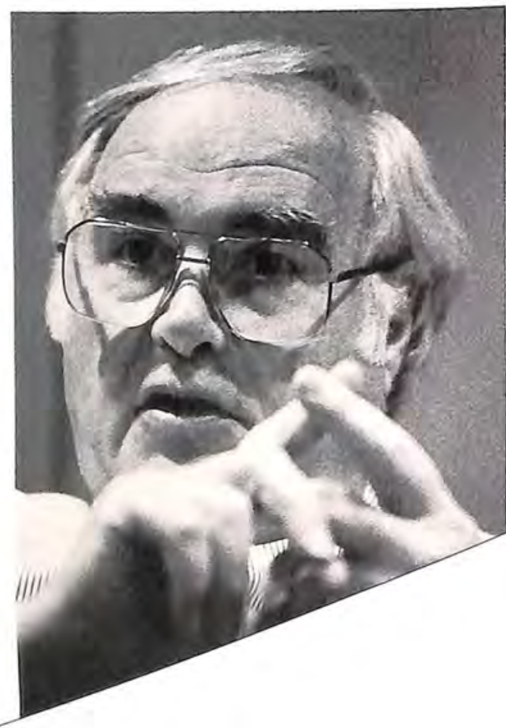
William E. Timmons
Chairman, Executive Committee

"Timmons and Company, organised in 1975, represents major American corporations and associations in the field of federal government relations. The company provides a full range of professional consulting services to a limited number of clients."

HILL AND KNOWLTON

Thomas E. Eidson
President and Chief Executive Officer

"We are a worldwide public relations and public affairs firm committed to providing the highest quality counsel and service in order to create tangible value and success for our clients."



Ogilvy Adams & Rinehart

Jonathan Rinehart *Chairman*

"Ogilvy Adams & Rinehart is located in key financial, governmental and media centres. The firm offers sophisticated capabilities in corporate public relations, financial communications, health and medical communications, public affairs, strategic marketing and special situations."

RESEARCH INTERNATIONAL

Philip Barnard
Chairman and Chief Executive Officer

"Our mission is to serve our clients better than any other custom research agency: *globally*."

Market Research

Millward Brown International

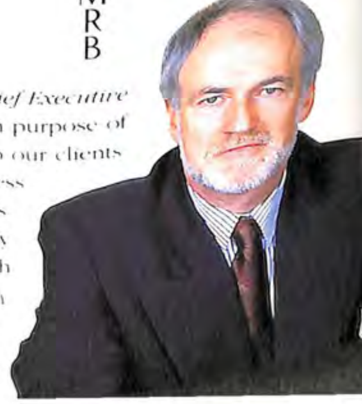
Gordon Brown
Chairman and Chief Executive

"Leading thinkers in advertising research, practising in over 30 countries including the USA, UK, Europe and the Far East. The senior management time, intellectual curiosity (and money) that we devote to our own new product development produces research that moves clients' brands and services forward – internationally."

MRB

Tim Bowles *Chief Executive*

"The main purpose of MRB Group is to help our clients make better business and policy decisions. We provide professionally excellent survey research to keep them in touch with their customers."



Incentive & Motivation, Sales Promotion and Audio Visual Communications

Promotional Campaigns
Worldwide

Keith Bantick *Chairman and Creative Director*
"Sales promotion isn't easy, but it never has been easy to gain an advantage over a competitor. This is what we do for our clients at the point of sale . . . every day."

Mando Marketing Limited

Alan Selby *Joint Chief Executive*
"Risk management of clients' consumer promotions is paramount to Mando, particularly as higher levels of cover are required as a result of increasing consumer redemption. It's no longer sufficient to simply win the business - we must also be sure that the redemption forecasts are accurate.

To paraphrase Mr Micawber: '999 redemptions, result, happiness. 1001 redemptions, result, misery.'"

einson
FREEMAN

Jeffrey K. McElnea *President*
"Our mission is to be the major promotion marketing force in North America . . . in innovation, reputation, clients retained and market results. That is only achievable by creating the most distinctive and effective promotional campaigns in the marketplace, helping clients to determine their brand-building needs as well as fill them."

The Marketing Consultancy Ltd

Philip Dexter
Chairman
Roger Williams
Managing Director
Richard Norman
Director
"TMC provides its clients with professional excellence in sales promotion consultancy with no vested interest in any specific technique."

P·L·I·V
Conference and Special Events
WORLDWIDE

Philip Christey *Chairman*
"P.L.I.V. is the group's UK specialist in organising corporate events including conferences, incentives, product launches and motivational programmes. We take care of our clients' needs all over the world."

METROVIDEO LIMITED

David Pacy *Chief Executive*
"Among 20,000 jobs in 1991, MetroVideo built a multi-camera Outside Broadcast Truck, supplied sound equipment to 10 Downing Street, duplicated Ford's in-house video programmes and organised Texaco's satellite conference."

Identity, Design and Architecture

SBG PARTNERS
MARKETING
AND DESIGN
CONSULTANTS

Flavio M. Gomez
Senior Managing Partner (right)
Larry Roellig
Managing Partner (left)
"COMMUNICATE,
DON'T DECORATE."

Anspach Grossman Portugal Inc

"Personal and professional service . . . quality solutions that solve client problems and produce results . . . our client's success is the best measure of our success."

Joel Portugal *Partner* **Gene Grossman** *Partner* **Ken Love** *Partner* **Bill Schneider** *Partner* **Larry Ackerman** *Partner* **Ken Roberts** *Partner*

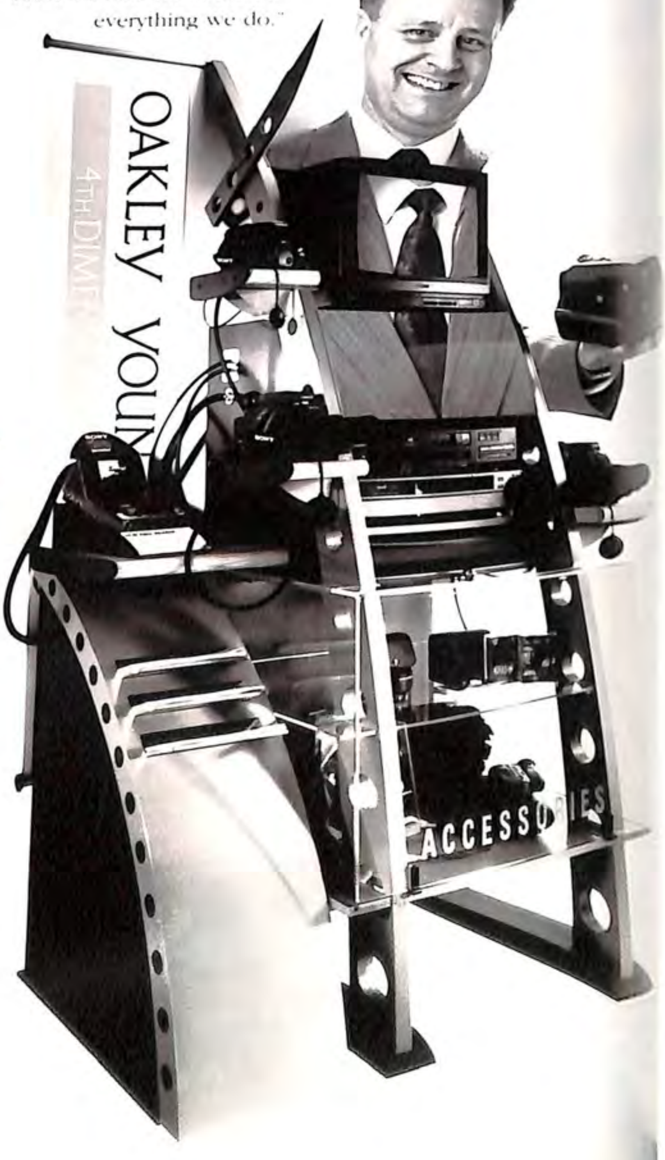
22

STRATEGIC
COLEY
PORTER
BELL
DESIGN

Jan Hall *Chairman and Chief Executive*
"We are designers of corporate and brand identities. The most important people at Coley Porter Bell are clients and we judge our success by the success we create for them."

OAKLEY YOUNG
4TH DIMENSION

Robin Spence *Chief Executive*
"There's a little bit of me in everything we do."



WalkerGroup/CNI

Kenneth H. Walker FAIA
Chairman and Chief Executive Officer
"RETAIL Architecture, RETAIL Graphics,
RETAIL Interiors, RETAIL Banks,
RETAIL PROFITS."

GEOFFREY REID
ASSOCIATES

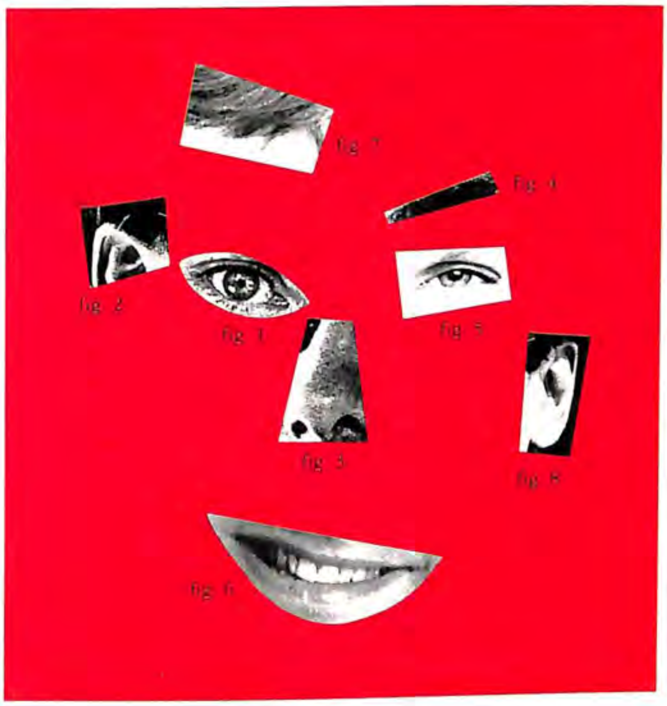
Geoffrey Reid *Managing Director*
"Geoffrey Reid Associates are international architects, town planners and landscape architects. Operating out of our London, Birmingham, Glasgow and Madrid offices, the practice is ambitious in delivering a strong service to our clients in leisure, higher education, housing, the corporate sector and commercial development."

VAP

TOTAL COMMUNICATION MANAGEMENT

Trevor H. J. Jones *Chairman*

"VAP, through its strong creative and account teams, augmented by the advantage of in-house artwork and print facilities, gives added value to its clients by creating, producing and managing their through-the-line corporate communication package - offering clients TOTAL COMMUNICATION MANAGEMENT."



Sampson | Tyrrell

Figure Head

fig. 1 *Terry Tyrrell*
fig. 2 *Charles Trevail*
fig. 3 *Dave Allen*
fig. 4 *Jon Mostyn*
fig. 5 *Josie Bowman*
fig. 6 *Malcolm Glyn*
fig. 7 *Peter Widdup*
fig. 8 *Terry Moore*

"Figurehead - carved bust etc. over ship's prow, nominal leader.
Team - set of persons working together."

Stewart McColl
Group Chairman and Chief Executive
Stefan Zachary
Group Managing Director
Gordon Watson
Group Business Development Director

"We aim to be *the* leading international architects and designers, advising retailers and developers on a worldwide basis."

SCOTT STERN

Harry Scott
Joint Managing Director
Raymond Stern
Joint Managing Director

"Scotland's largest design and marketing company - offering a unique and comprehensive creative service backed up by the finest computer graphics configuration in the UK."

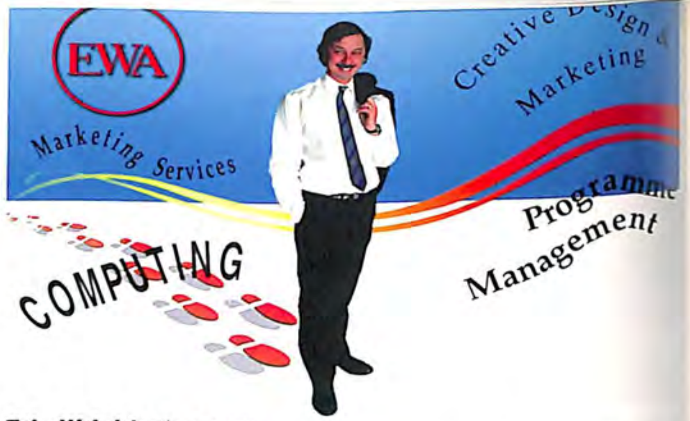
Business Design Group

(from left to right)

Andrew Howard *Chairman*
Stephen Todd *Managing Director*
Derek McConnell *Marketing Director*
Stephen Hitchins *Graphics Director*
Keith Lawson *Design Director*
Chris Legg *Sales Director*
Frank Hindson
Director of Construction Management
Brian Thorn *Finance Director*

"Business Design Group is an organisation of talented, committed people who share goals and ideas. Committed to improving the performance of people at work. Committed to meeting our clients' business objectives. Talented in creating new solutions in analysis, design, communication and, above all, service. The quality of what we do and how we do it is not negotiable, for it is only through our pursuit of quality that we can fulfil our clients' aspirations."

Specialist Communications



Eric Wright *Chairman*
"EWA are actively increasing their product range to extend telemarketing, direct marketing, database products and smart card applications. This action complies with the company's philosophy of aggressive advancement in the market place."

JWT Direct (JWT)

Mitchell A. Orfuss
President, JWT Direct USA
"JWT Direct's corporate mission is to provide direct marketing programmes in support of JWT advertising clients who could benefit from them, and to serve direct marketing-driven companies outside of JWT's client base who retain us as their full agency resource."

COMMUNICATION
THE RTC GROUP

Michael N. Graham
President and Chief Executive Officer
"It's the wonderful, talented people at The RTC Group who make me look so good."

A. Eicoff & Company

Ron Bliwas
President and Chief Executive Officer
"A. Eicoff and Company's philosophy is based on the belief that a commercial is only creative if it sells. For over 25 years, we have translated this philosophy into Television Advertising for Immediate, Measurable Results."

J Walter Thompson Healthcare Group

John H. Stevens
Chairman
"Led by our captain, our company is the picture of health, communicating with healthcare professionals through print and broadcast advertising, new product launches, market research, and continuing medical education."

PACE

Milton F. Bagley
Chairman and Chief Executive Officer (centre)
Richard A. Nulman *President (left)*
John Grimes
Executive Vice-President (right)
"As marketers of real estate and travel, our job is to convince people to buy homes ... and then leave home."

Thompson Recruitment Advertising (JWT)

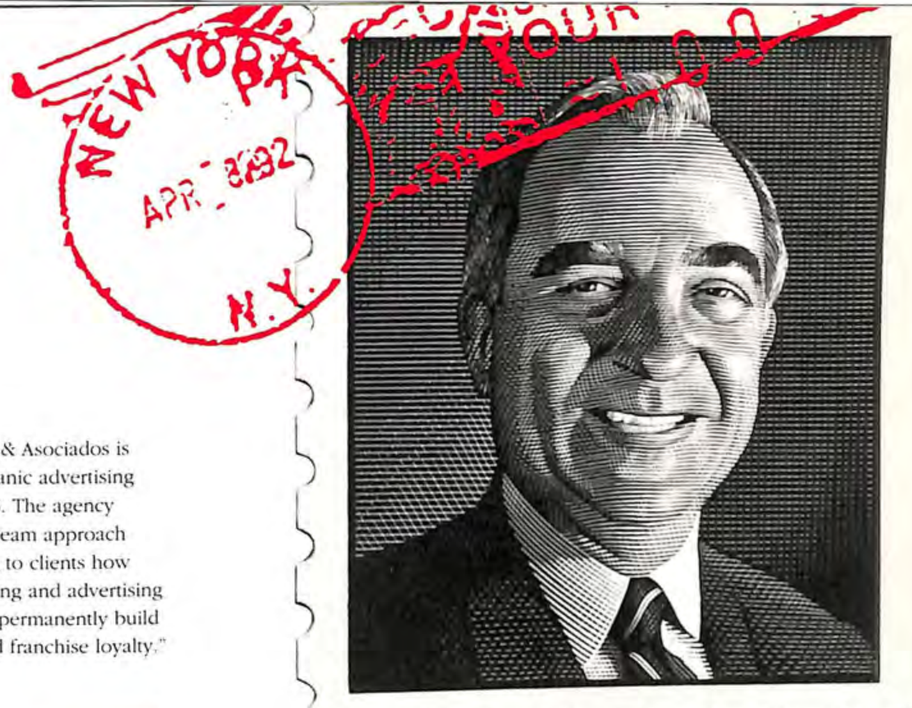
RESUMÉ

Name: **Kim Macalister**
Title: *President and Chief Executive Officer*
Objective: "To create ideas that help our clients hire, retain, motivate and educate their employees."

MENDOZA, DILLON & ASOCIADOS, INC.

Richard Dillon *Chairman*
Robert Howells *President*
Andrés Sullivan
Executive Vice President/Creative Director
Eduardo del Rivero
Executive Vice President/Client Services
Deborah Gagné
Executive Vice President/Administration

"Mendoza, Dillon & Asociados is the leading Hispanic advertising agency in the US. The agency utilises a strong team approach in demonstrating to clients how Hispanic marketing and advertising can quickly and permanently build sales volume and franchise loyalty."



Ogilvy & Mather Direct

Jerome W. Pickholz
Chairman and Chief Executive Officer
"As the leading direct marketing agency we strive to know more about our clients, their customers and how to build relationships between them. This leads to the most creative selling ideas, supported by our proven ability to serve clients better, locally and internationally."

25

Primary Contact

John Armitage *Chairman*
"Primary Contact serves clients requiring direct mail and other below-the-line activities as well as advertising.
Results orientated culture.
Divisions: Business-to-Business, Financial, Consumer, Recruitment."

BROUILLARDCOMMUNICATIONS

Jim Foster *President and Chief Executive Officer*
"What's our special talent? Integrated communications. The right balance of advertising and public relations – for corporate, financial services, associations and premium brands.
Keeping it all in sync.
Making it look easy."

FERGUSON COMMUNICATIONS GROUP

Thomas G. Ferguson
Chairman and Chief Executive Officer
John F. Zweig
President and Chief Operating Officer
Pamela A. Rossetti
Executive Vice President and Chief Financial Officer
"The mission of the Ferguson Communications Group is to identify and develop opportunities for growth in the *healthcare* industry."

Theodore A. Maurer
President and Chief Executive Officer
"The goal of HLS CORP is to help improve the quality of health care through education and effective communication with physicians, other health professionals, patients, and the public."

TM

Manufacturing

WIRE AND PLASTIC PRODUCTS LTD

Gordon Sampson *Chief Executive*
"We keep households, stores and supermarkets happy by supplying effective, quality products... and that keeps me happy."

Thoughts on the Growth and Development of the Worldwide Marketing Services Industry

For the first year since 1974, the worldwide demand for marketing services did not grow in real terms in 1991. It fell by approximately 1%. Furthermore the short term outlook for the industry has been clouded by the recession. Some industry commentators have argued that the cyclical decline in marketing services expenditure that started at the end of 1990 is the beginning of a long term trend which marks a change in the pattern of demand.

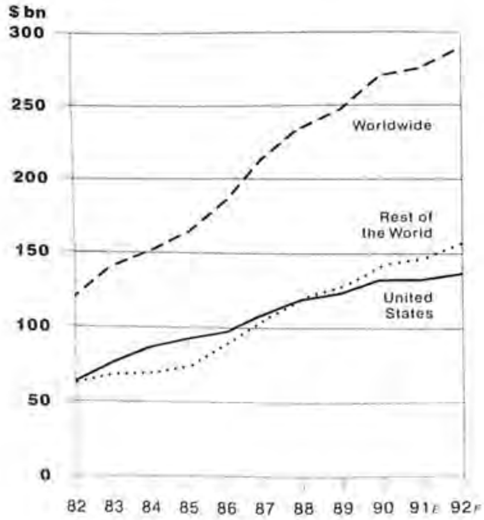
The Group believes that there has been no fundamental shift in the nature of demand for the industry's service and that as the recovery comes the factors that have historically driven the demand for marketing services will re-assert themselves in the 1990s. Despite the recession the trends that the Group has previously identified have persisted and have been reinforced by the recession. First, media advertising is growing faster outside the United States. Secondly, across the world, non-media advertising is growing faster than media advertising.

The marketing services industry

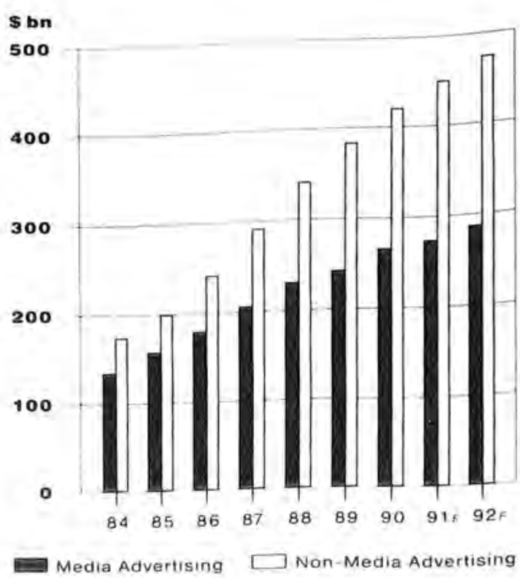
In 1991 worldwide marketing services expenditure was $720 billion and grew at approximately 3% in nominal terms. Media advertising, that is advertising on television, in newspapers and magazines, on radio and outdoor, accounted for approximately 38% of the market. The remaining 62% consisted of the other services that companies use to communicate, such as public relations, market research, non-media advertising, which includes design, sales promotion, audio-visual and incentives, and specialist communications.

As before, the market outside of media advertising continued to grow at a faster rate than media advertising.

Worldwide Media Advertising Expenditure
Sources: WPP Group, J Walter Thompson, Ogilvy & Mather. Latest estimates for 1991 and forecasts for 1992



Worldwide Marketing Services Industry
Source: WPP estimates from published information. Latest estimates for 1991 and forecasts for 1992



Worldwide Marketing Services Expenditure 1991 ($bn)

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

	USA	UK	France	Germany	Japan	Rest of World	Total
Media Advertising	131.0	13.5	10.5	13.2	35.1	68.0	**271.3**
Public Relations	12.7	2.0	0.8	0.9	3.3	1.8	**21.5**
Market Research	2.5	1.0	0.6	0.7	0.7	1.9	**7.4**
Non-Media Advertising							
Graphics & Design	17.0	5.3	1.5	1.8	7.2	2.5	**35.3**
Incentive & Motivation	2.7	0.7	0.3	0.5	0.9	1.4	**6.5**
Sales Promotion	145.6	16.2	10.4	11.0	39.0	61.0	**283.2**
Audio Visual Communications	3.2	0.7	0.6	0.7	0.7	1.2	**7.1**
Specialist Communications							
Real Estate	1.1	0.2	0.1	0.3	0.7	0.5	**2.9**
Financial Communications	1.3	0.5	0.1	0.3	0.8	0.2	**3.2**
Ethnic	1.5	0.2	0.1	0.1	0.1	0.3	**2.3**
Public Affairs	5.5	1.4	0.5	0.6	1.4	0.5	**9.9**
Direct Mail	24.9	4.8	2.4	3.1	7.8	10.5	**53.5**
Recruitment	4.0	0.5	0.2	0.7	0.9	1.4	**7.7**
Healthcare	4.1	0.8	0.5	0.6	1.2	1.0	**8.2**
Total	**357.1**	**47.8**	**28.6**	**34.5**	**99.8**	**152.2**	**720.0**

Size and Growth Rates of UK Marketing Services 1981-1992

Sources: Advertising Association, Post Office, Keynote, DMPA, ISP, Hollis, IPR, PRCA
Latest available agency estimates for 1991 and forecasts for 1992

	Media Advertising		Sales Promotion		Public Relations		Direct Marketing	
	£bn	%	£bn	%	£m	%	£m	%
F1992	7.85	4%	9.37	3%	1,325	6%	965	10%
E1991	7.55	−5%	9.10	2%	1,250	3%	880	9%
1990	7.95	−1%	8.88	8%	1,210	9%	810	10%
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	12%	500	16%	430	6%
1983	3.58	14%	4.00	14%	430	23%	405	6%
1982	3.13	11%	3.50	17%	350	27%	370	19%
1981	2.82	10%	3.00	11%	275	38%	310	3%
10 year historic growth rate	**11.7%**		**10.3%**		**16.3%**		**11.0%**	
5 year historic growth rate	**6.5%**		**8.3%**		**12.0%**		**11.2%**	

The outlook for media advertising

In 1991 expenditure on media advertising declined in real terms. This fall could have been the result either of the recession or because of a fundamental change in the factors that affect the demand for marketing expenditure.

The evidence suggests the former as those countries where the industry was most affected also suffered the greatest general economic downturn, and the long run trends discussed overleaf point to continuing demand for marketing services in the 1990s.

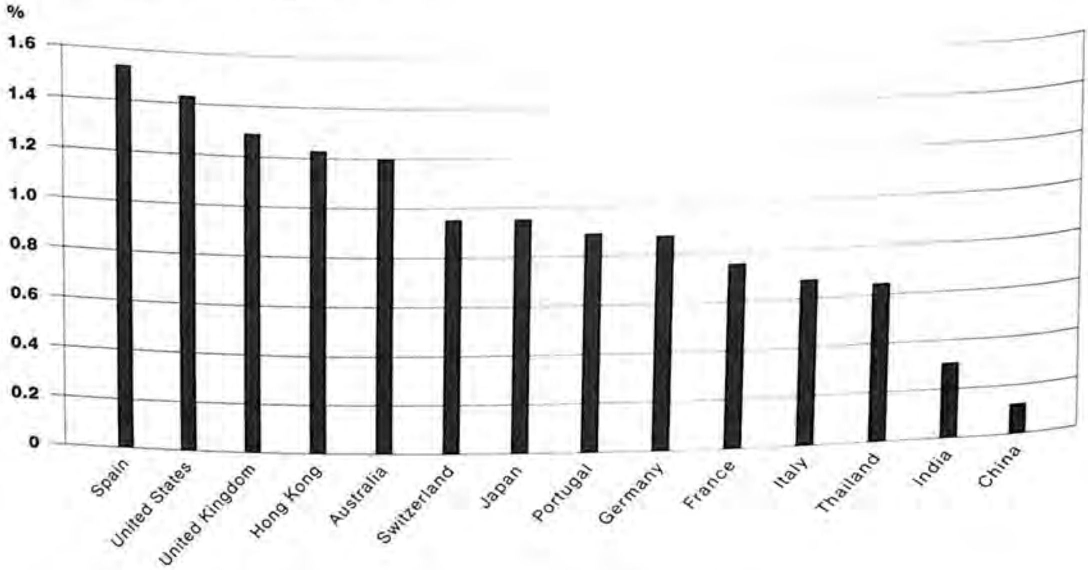
Media advertising and the recession

The decline in media advertising was concentrated in the mature markets of the United States, United Kingdom, Japan and Australia. These markets account for approximately 70% of worldwide media advertising expenditure. Outside these countries advertising grew, albeit at a slower rate than before because of the global recession.

Real growth is expected to continue worldwide in the 1990s.

It is clear that a reunited Germany, with the addition of the 16-17 million people in the New Territories, more than half of whom have been exposed to television advertising, will represent about 10% of worldwide spending; more important even than Japan, as the two largest Japanese agencies control 40% of the local market and wholesale media. Imagine competitive advertising in the United States or United Kingdom buying media from one another. In any event, German and Japanese will become increasingly important languages in marketing.

1991 Advertising Expenditure as % of GNP
Sources: J Walter Thompson, Ogilvy & Mather



There is no doubt that the recession has placed enormous pressures on client profitability. In many cases clients have taken short-term measures to restore profitability and cut costs by reducing marketing expenditure. The long term impact of these cuts on their volume, market share and profit margins as the world economy moves out of recession is not yet known. As the recession ends these immediate pressures will abate and clients will return to focus on the long term factors affecting their business. Moreover, those clients who sacrificed market share for increased profitability in the short-term by decreasing advertising expenditure will find it expensive to regain their previous position. This is particularly so as many more far-sighted clients (mainly Japanese) have taken a different position.

The growth of new markets

New advertising markets continue to open. The Group is now represented across Eastern Europe and has recently opened offices in Vietnam and Myanmar (Burma).

Vietnam has a population of 65 million and may therefore rival the markets of Spain (39 million) and Thailand (51 million) in due course.

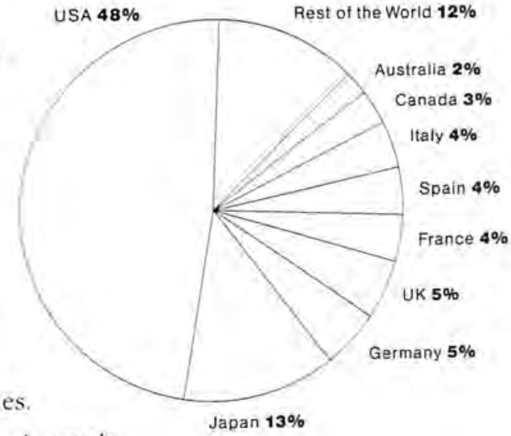
In the short-term it is probable that South-East Asia and Latin America offer the greatest opportunities. In both sub-continents, political attitudes, population size and – particularly in South-East Asia – a capitalist work ethic, support growth.

Liberal economic policies and open markets in Latin America should provide the background for more sustained and steady growth in marketing services in the region. In Eastern Europe political instability and a lack of an infrastructure will hinder growth. East Germany and Hungary are clearly exceptions, but Poland, Czechoslovakia and Russia are problematical.

However, these emerging markets provide the same opportunities for our clients as Italy and Spain did some ten years ago – enormous, potentially consumer-driven economies.

However, there are other long run factors that indicate continued growth in advertising and marketing services in the most developed economies.

World Advertising Markets 1991
Sources: J Walter Thompson, Ogilvy & Mather
Total market $271 billion



The difficulty of achieving growth targets

Most of our clients promise shareholders, analysts, journalists and bankers, that they will achieve growth targets in profitability of 5-15% per annum or even more.

Given the large size of their companies and the relatively slow worldwide growth of population, this becomes increasingly difficult to do. Basically there are three ways – revenue growth, cost reduction and acquisitions.

Acquisition remains the most expensive and risky route. Despite the recession the pricing of acquisitions has remained high, primarily due to the scarcity of truly global or multi national brands. Recent stock market strength has not helped either.

The second route, cost control, often in the disguise of the "low cost producer strategy", is really half a strategy. Cost cutting is a finite activity. You can only cut costs significantly once or twice and although continuous cost improvement programmes are essential, these are really care and maintenance programmes.

By far the most important avenue for growth is revenue generation, and this gives significant cause for optimism for growth in the marketing services industry.

In an increasingly competitive national and multi national environment, where technological and product differentiation is increasingly difficult to maintain, where advancing communications technology is reducing the difficulty of transmitting messages across the world, the need to establish perceived differences between competing products and services is intensifying. With the growth of media technology resulting in media fragmentation, these differences are increasingly being established by micro or specialist methods of communications such as direct marketing as well as more traditional mass communication methods such as television advertising.

The continued need for building brands

As the recession ends, companies will need to achieve volume and margin improvements to restore profitability.

Companies will find it impossible to rely solely on a technological lead to maintain their market position and profit margins. Progressively shorter product life cycles mean that market leadership through technological dominance becomes increasingly difficult and expensive. Even technologically advanced goods, such as computers and financial services, are becoming more commodity like, and their markets are exhibiting similar characteristics to more mature packaged-goods markets. Companies are being forced to turn to brand loyalty to maintain their market leadership as recent trends in the computer industry demonstrate. The technological dominance of the leading computer manufacturers is being reduced by cheaper clones from South-East Asia. Unable to compete through price cuts without damaging their profitability, the original PC manufacturers are increasingly turning to brand advertising and promotion to increase volumes and preserve margins.

Commentators have questioned whether consumers' brand loyalties have declined – particularly as price-based promotions have increased.

Whilst the evidence is mixed, the latest survey in the United States from NPD Group shows that whilst brand loyalty has declined by 8% over the last 17 years "there has been no measurable change in the last eight years."

The impact of competition on promotional expenditure

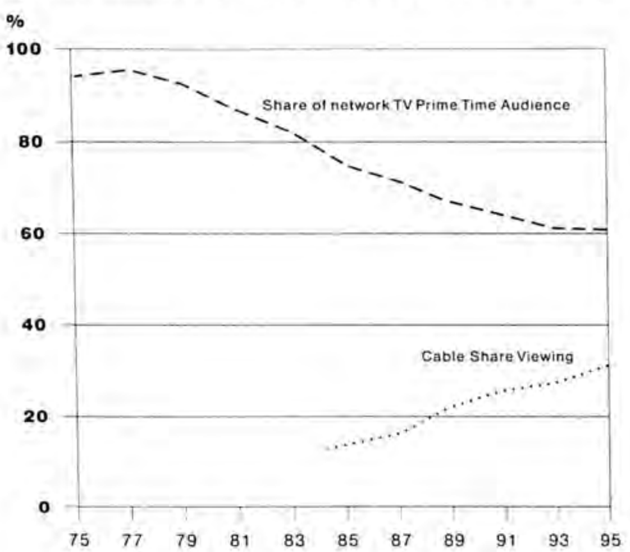
Increasing competition in companies' markets will reinforce the need to maintain expenditure on brands. Growing internationalisation increases the number of competitors in markets. Within Europe the single market will intensify competition in a number of product sectors, for example in financial services and food. Within Asia, Japanese multinational companies are increasingly competing with American and European companies. The US automobile industry illustrates the impact that competition can have on promotional expenditure. Despite the pressure on earnings and the decline in sales volumes manufacturers spent nearly $3.5 billion – a reduction of only 2.7% on 1990 levels – to promote their products against the threat of foreign and domestic competition. There is nothing to suggest that competition in this industry or in any other will become any less fierce in the 1990s.

The fragmentation of the media

It now appears that the decline in the market share of network television in the United States has slowed. The penetration of cable has reached 56% and is unlikely to grow significantly at the expense of network television. Veronis, Suhler and Associates now predict that network's prime time share will stabilise at around 61% for the next three years. In the United States and elsewhere, cable and satellite television will continue to become more attractive to advertisers interested in attracting niche audiences. However in those countries with well-developed television networks, prime time network television will remain the most important medium for mass-market communication, and the cheapest and quickest way of reaching the majority of the population.

United States Network Television Viewing
Sources: Veronis Suhler & Associates, Wilkofsky Gruen & Associates

Network TV Share of Prime Time Audience and Cable Share of Viewing



In the United Kingdom satellite television will provide the same competition to the traditional ITV franchises as cable in the United States. It is unclear whether rates will fall significantly but the overall market should expand as new advertisers are attracted to the medium.

For our clients this means more complex media decisions. This will increase our importance to them as purveyors of alternative media and as experts. Research into advertising effectiveness and audience measurement will become a growing part of the media opportunity. Paradoxically this complexity may lead to a greater integration of the media buying service with creative work as creative ideas are directed at more specialised audiences.

Media buying

With the growing complexity of available media, media buying will become an even more important part of our industry. This does not necessarily mean that a successful media buyer must be large and pursue size at any expense.

The increasing competition seen in the media buying industry in the past year, especially in Europe, reflects a cycle seen some 100 years ago. Advertising agencies were originally media brokers taking a 15% commission for selling space.

As the market became more competitive and profit margins were squeezed agencies looked to increase them in some way. By 1895 J Walter Thompson Company was among the first media brokers to add creative work to its media buying to differentiate itself from its competitors and maintain margins. In 1991 some media buyers in the UK began talking about doing the same thing.

In the long-term the situation where media buying is based solely on volume, with the buyer retaining the volume discounts, cannot be stable. Media buying businesses whose margins are based solely on volume discounts will find their clients demanding more of these rebates. Otherwise clients will move their volume to a buyer that is prepared to pass all the discounts through to them. This has already started to happen in the most idiosyncratic media buying markets in France where media buying agencies' margins have already been squeezed. Clients want the most cost-effective media and volume is only part of this equation.

The Media Partnership, which includes Ogilvy & Mather and J Walter Thompson, is now operating successfully in 7 countries and about to start in a further 3. It works to ensure and protect clients' media interests, with the best means available.

Agency compensation

The recession has increased the pressure on agency commissions. At the same time, however, some clients are taking a more motivating approach. Some advertisers, including the very largest, such as Unilever, Nestlé, Philip Morris and Procter & Gamble, are developing imaginative new compensation systems some of which link incremental agency remuneration to results rather than to the amount of media bought.

Further pressure on compensation will have the inevitable effect of reducing the quality of agencies' strategic and creative thinking and increase creative hip-shooting as a response to client problems, rather than the development of a well thought through strategy with an appropriate creative execution.

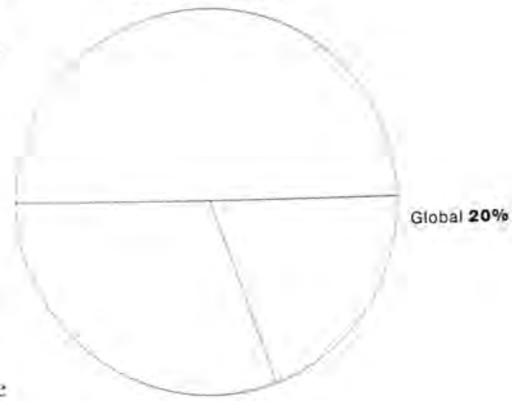
It is essential to develop with our clients the concept of an acceptable level of return for our work, perhaps related to quantitative and qualitative success. This will ensure that the clients do not feel that advertising agency recommendations reflect their own economic interest as a result of the commission system.

The structure of advertising agencies and the role of the country manager

The structure of advertising agencies has always reflected that of their clients. Whereas multi national mergers in many service industries were a late 1980s phenomenon, the advertising industry has been an international business since before the last war. J Walter Thompson had over 30 offices overseas in the 1930s including throughout Eastern Europe.

One common problem facing all our clients, whether national or multinational, is how to organise themselves as free trade blocs develop in Europe, North and South America, and in Australasia. These are largely politically inspired conglomerations, which are having significant impact on the supply side of our clients' businesses, particularly in terms of production and distribution. In these areas, there are significant economies of scale. However, clients are looking perhaps dangerously for similar economies on the demand side. Although there are some truly global products or services such as detergents, they are few (perhaps 5-10% of our business). It is probably true that as wealth and income grow, consumers are as likely to become more different than similar. Just think about the growth of Flemish television in Belgium or the Scottish Nationalist movement. On January 1 1993, a Euro-consumer will not be born.

WPP Group Clients
Sales by Geographic Activity

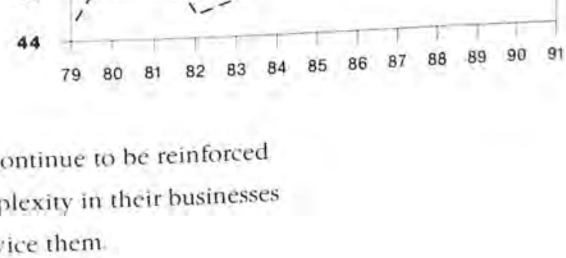


Despite this, advertisers are increasingly integrating their marketing functions across countries. Clients are setting up centres of excellence or innovation centres to manage brands across countries. Agencies have responded by setting up co-ordination structures matching their clients. Managers are increasingly responsible for single brands or clients across countries.

In this situation, the role of the country manager at both the client and the agency becomes increasingly difficult to define. It may well be that different markets will demand different structures given their special characteristics. For example, more rapidly developing, less mature, more entrepreneurial markets may demand country management. Conversely a more mature, less dynamic market may be more appropriately managed by a regional approach.

In response to this there has been continued consolidation in the advertising industry. There are now only 13 or 14 major agencies able to service the major multinational clients. The last year has seen continued consolidation and merger in the industry, both in the UK quoted sector and elsewhere.

Top Ten Advertising Agencies Worldwide
Market Share of Advertising Age Top 500 1979-91
Source: Advertising Age



The multinational agencies have gained market share, especially amongst the largest advertisers. This will continue to be reinforced both by consolidation amongst clients and increasing complexity in their businesses which necessitates the use of multinational agencies to service them.

However, as with all such issues, the solution is not black or white. Any such organisational changes bring risks. In the case of agency organisations in Europe, for example, whilst London, Paris, Frankfurt, Madrid and Milan may gain, there is a risk that smaller markets might suffer and the quality of service and the ability to attract local creative talent might decline.

At the same time there is greater and more complex client conflict than before. The recent trend towards joint ventures, for example between Unilever and Pepsi, General Mills and Nestlé and Coca-Cola and Nestlé, means that both clients and agency groups increasingly need multi-network organisations to service these conflicts.

Trends in non-media advertising

Short term

Worldwide the recession affected non-media advertising to a similar extent. Clients either did not increase as before, or they reduced their expenditure on public relations, on design, on sales promotion, on incentives, on audio-visual, on direct marketing and on specialist communications. In the developed markets, non-media advertising, with the exception of direct marketing, may have suffered to a greater extent than advertising.

Expenditure on market research and some specialist communications areas such as healthcare were much more resilient. In the case of research, this reflects the fact that clients became more concerned about justifying various types of expenditure, and in healthcare the growing importance of over-the-counter as opposed to prescription drugs. Pharmaceutical companies are increasingly looking for packaged-goods approaches to marketing.

Within the marketing services industry the sectors worst affected by the recession were public relations and design. Both sectors saw rapid growth in the 1980s and are less mature disciplines than advertising. The difficulty in measuring the cost-effectiveness of public relations and design may have contributed to the decline by allowing clients to view such expenditure as discretionary. In comparison, sales promotion and direct marketing did not suffer to the same extent. The short term benefits they produce can be directly compared against the cost of campaigns. More easily measurable media seem to be more recession-proof.

Long term

More sophisticated technology and fragmented media will strengthen the attractiveness of targeted promotions. Advances in database technology and in market research will reduce the cost of targeted promotions and increase their effectiveness.

Clients will increasingly seek some form of integration of the marketing services that they use whether they or the agency provides the structure for integration.

As Group companies work together across disciplines to develop strategic solutions to clients' needs the Group will increasingly find ways of co-ordinating these services. Our strategic marketing services activities, for example at the Henley Centre, may provide a competitive edge. Certain key issues can be addressed for clients such as: what should determine the level of their total communications expenditure? What should determine the split of the total communications budget between different disciplines, such as advertising, direct, public relations and so on? How should clients organise themselves to spend this budget in the most effective manner?

Healthcare marketing

One specialised area of the marketing services industry where the Group has a significant presence and which even last year saw significant growth is healthcare marketing. The healthcare industry was probably the fastest growing industry of the 1980s and at the same time developed a more marketing-orientated focus. Increasingly large amounts are being spent on product promotion for two reasons. Firstly, the development time of new drugs is increasing so that companies are faced with shorter periods of patent protection to exploit their innovation. Secondly, generic and copy-cat drugs are reducing the profitability of drugs after they have lost their patent protection. To combat both of these trends pharmaceutical companies are building brands to protect their original investment. Brands can be built under patent protection both to extend the benefit of the innovation after the patent has expired and to combat generic drugs.

The Group is developing a worldwide healthcare network to match the needs of the global pharmaceutical companies and to take advantage of a market that will continue to grow. This will be the most effectively resourced healthcare group in the world, able to handle global promotional campaigns for new drugs as they are developed.

Conclusion

Overall 1991 was a difficult year for the marketing services industry. Despite this the long term outlook for the industry remains positive. The challenge facing the Group is to apply its unique functional and geographical resources to the solution of client problems as economies begin to recover.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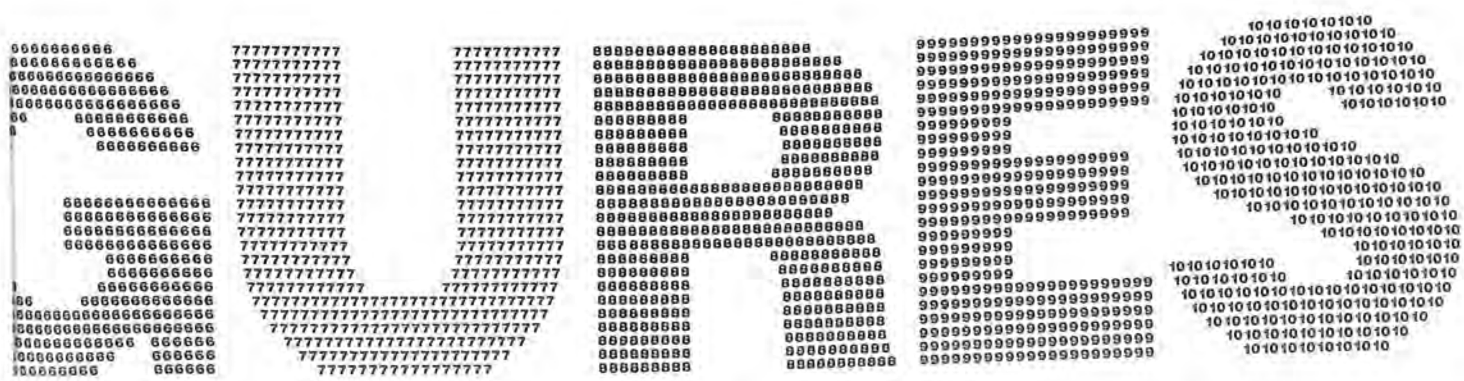
1991 Report and Accounts

for the year ended 31 December 1991



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WPP Group plc

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M Richardot
D M Roberts
M Sampson
C F Schulten *Secretary*

R J C Beanland
M W Capes
R C Clementson
H M L Doherty
J Drefs
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S R Mitchell
T Neuman
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A G Stimpson
J Treacy

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R E Lerwill
S W Morten
M S Sorrell

Head Office

27 Farm Street
London
W1X 6RD

Registered Office

Industrial Estate
Hythe
Kent
CT21 6PE

Auditors

Arthur Andersen
1 Surrey Street
London
WC2R 2PS

Registrars

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

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 Moorfields Highwalk
London
EC2Y 9DS

Solicitors

Allen & Overy
9 Cheapside
London
EC2V 6AD

Davis & Gilbert
1740 Broadway
New York
NY 10019

Edge & Ellison
Calow Easton
18-19 Southampton Place
London
WC1A 2AJ

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

Executive Remuneration Consultants

Towers Perrin
245 Park Avenue
New York
NY 10167

Property Advisers

James Andrew Badger
Limited
11 Waterloo Place
London
SW1Y 4AU

Directors' Report

The directors present their annual report, together with the audited accounts for the year ended 31 December 1991.

Profits and Dividends

The profit on ordinary activities before tax for the year was £56,105,000 (1990: £90,040,000). Before exceptional items, profits were £38,363,000 (1990: £90,014,000).

For the reasons noted below, the directors are not recommending an ordinary dividend be paid in respect of 1991 (1990: £ Nil).

The retained profit for the year of £13,407,000 is carried to reserves.

Review of the Group

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

A full review of the Group's activities during the year and its future prospects is given in the Chief Executive's Review.

Due to covenants given to 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. Since the dividend on the Convertible Cumulative Redeemable Preference shares remained in arrears at 31 October 1991, with effect from that date and until all arrears are paid, the holders of the shares are entitled to vote at General Meetings of the Company convened on or after that date on the basis of one vote for each Preference 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 covenants given to lenders it is unlikely that the Company will have sufficient distributable reserves under its present capital structure to pay dividends on its shares in the foreseeable future.

In March 1992, the Company announced that it was assessing alternative ways of making significant improvements to the Group's liquidity and strengthening its capital structure, and was also in discussions with its banking syndicate regarding the negotiation of new facilities and adjustments to its bank covenants. Outline proposals were presented on 7 May 1992 to the banking syndicate. Further details of the proposals are disclosed in note 23 to the accounts.

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 43,265,814 to 54,763,752, primarily due to shares issued as part consideration for past acquisitions. Details of 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 £273,500.

Directors' Report *continued*

Directors and their Interests

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

	1 January 1991 and 31 December 1991		
	Ordinary Shares	Preference Shares	Subscription Warrants
David Ogilvy	4,000	–	–
J J D Bullmore	3,000	15,900	375
P R Judge	–	–	–
S H M King	–	–	–
R E Lerwill	20,075	28,813	7,509
S W Morten	–	–	–
J A Quelch	400	–	–
G C Sampson	289,515	156,750	–
M S Sorrell	930,287	506,851	116,285
J R Symonds	12,547	20,000	–

On 5 June 1992 the interests of the directors were unchanged from 31 December 1991.

Mr R E Lerwill has been granted options in respect of a total of 126,376 Ordinary shares with subscription prices of between 358p and 755p.

Messrs P R Judge and S W Morten were appointed to the board since the date of the last Annual General Meeting, on 24 June 1991 and 2 December 1991 respectively. They therefore retire and, being eligible, offer themselves for re-election. Neither Mr Judge nor Mr Morten have service contracts which exceed one year in duration.

Mr J J D Bullmore retires by rotation and, being eligible, offers himself for re-election. Mr Bullmore does not have a service contract which exceeds 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.

Paul Judge, who became a non-executive director of WPP Group in June 1991, is chairman of Food from Britain. Previously he spent 12 years with Cadbury Schweppes, ultimately as group planning director, working in the UK, the US and East Africa. In 1985, he led a management buyout to form Premier Brands. He is a benefactor of the Judge Institute of Management Studies at Cambridge University.

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 visiting professor of marketing communications at the Cranfield School of Management.

Stanley Morten became a non-executive director of WPP Group in December 1991. He is director of the equity services division of Wertheim Schroder in New York. Early in his career at this investment bank, he became a chartered financial analyst and, subsequently, director of research.

John Quelch 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. He is also a non-executive director of Reebok International Ltd.

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% or more in the Ordinary share capital of the Company: Edward F Calesa – 3.08%, Thomas G Ferguson – 3.32% and Fidelity – 4.23%; and of the following interests of 3% or more in the Convertible Cumulative Redeemable Preference share capital of the Company: Fidelity – 8.61%, Klingenstein Fields – 4.59%, Schroder Investment Management Limited – 3.71% and Legg Mason, Inc. – 3.27%. The disclosed interest of "Fidelity" refers to the combined holdings of FMR Corp., Fidelity International Limited, and Edward C Johnson 3rd (the principal shareholder of these companies). The Company is not aware of any other holdings in excess of 3%.

Close Company Status

The Company is not a close company within the provisions 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 been granted to a total of 569 (1990: 384) employees over a total of 3,003,106 (1990: 2,891,115) 10p Ordinary shares of the Company. The exercise of these options is generally conditional on the profit performance of the employee's company or of the Group

Charitable and Political Contributions

The Group contributed £167,000 to UK charities in 1991. No contributions were made to political parties.

Auditors

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

By order of the Board
C F Schulten
Secretary
5 June 1992

Auditors' Report

To the members of WPP Group plc:

We have audited the financial statements set out on pages 43 to 64 in accordance with Auditing Standards.

The financial statements have been prepared on a going concern basis. As further explained in Note 23 the Group is currently in discussions with its banking syndicate with regard to its financing requirements.

Until the Group's financing arrangements are satisfactorily resolved, there remains doubt concerning the future financing of the Group. Should the Group be unable to arrange adequate financing, the going concern basis may cease to be appropriate. In such a situation adjustments would have to be made to reduce the value of assets to their recoverable amount, to provide for any further liabilities which might arise and to reclassify fixed assets and long term liabilities as current assets and liabilities.

Subject to the satisfactory resolution of the financing arrangements referred to above, in our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 1991 and of the Group profit and source and application of funds for the financial year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen
Chartered Accountants and Registered Auditor
London
5 June 1992

Accounting Policies

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

1 Basis of Accounting

The accounts are prepared under the historical cost convention, modified to include the revaluation of land and buildings and corporate brand names.

2 Basis of Consolidation

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.

The Group's share of profits of associated companies is included in the consolidated profit and loss account and the investments are shown in the Group balance sheet at the Group's share of the net assets of the companies less provisions for permanent diminution in value. The Group's share of the profits and net assets is based on the latest audited information produced by the companies, adjusted to conform with the accounting policies of the Group.

3 Goodwill

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

4 Intangible Fixed Assets

Intangible fixed assets comprise certain acquired separable corporate brand names. These are shown at a valuation of the incremental earnings expected to arise from the ownership of brands. The valuations have been based on the present value of notional royalty savings arising from the ownership of those brands and on estimates of profits attributable to brand loyalty. The valuations are subject to annual review. No depreciation is provided since, in the opinion of the directors, the brands do not have a finite useful economic life.

5 Tangible Fixed Assets

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

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

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

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

Accounting Policies *continued*

6 Investments

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

7 Stocks and Work in Progress

Work in progress is valued at cost or on a percentage of completion basis. Cost comprises outlays incurred on behalf of clients and an appropriate proportion of direct costs and overheads on incomplete assignments. Provision is made for irrecoverable costs where appropriate. Stocks are stated at the lower of cost and net realisable value.

8 Debtors

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

9 Taxation

Corporate taxes are payable on taxable profits at the current rates. Deferred taxation is calculated under the liability method and provision is made for all timing differences which are expected to reverse, at the rates of tax expected to be in force at the time of the reversal.

10 Pension Costs

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.

11 Operating Leases

Operating lease rentals are charged to the profit and loss account on a systematic basis. Any premium or discount on the acquisition of a lease is spread over the life of the lease.

12 Turnover 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.

13 Translation of Foreign Currencies

Foreign currency transactions arising from normal trading activities are recorded in local currency at current exchange rates. Monetary assets and liabilities denominated in foreign currencies at the year end are translated at the year-end exchange rate. Foreign currency gains and losses are credited or charged to the profit and loss account as they arise.

The profit and loss accounts of overseas subsidiary undertakings are translated into pounds sterling at average exchange rates and the year-end net investments in these companies are translated at year end exchange rates. Exchange differences arising from 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 1991

Notes		1991 £000	1990 £000	1991 $000	1990 $000
	Turnover	**5,075,283**	5,460,454	**8,975,130**	9,758,923
1	**Revenue**	**1,204,418**	1,264,100	**2,129,893**	2,259,200
	Gross Profit	**1,016,191**	1,075,480	**1,797,032**	1,922,098
	Other operating expenses (net)	**(932,021)**	(942,535)	**(1,648,186)**	(1,684,498)
1	**Trading Profit**	**84,170**	132,945	**148,846**	237,600
	Interest receivable	**9,429**	14,275	**16,674**	25,512
3	Interest payable and similar charges	**(55,236)**	(57,206)	**(97,679)**	(102,239)
	Profit Before Exceptional Items	**38,363**	90,014	**67,841**	160,873
2	Exceptional items	**17,742**	26	**31,375**	46
2	**Profit on Ordinary Activities before Taxation**	**56,105**	90,040	**99,216**	160,919
5	Tax on profit on ordinary activities	**(23,564)**	(36,376)	**(41,671)**	(65,011)
	Profit on Ordinary Activities after Taxation	**32,541**	53,664	**57,545**	95,908
	Minority interests	**(1,494)**	(3,096)	**(2,642)**	(5,533)
	Profit for the Financial Year	**31,047**	50,568	**54,903**	90,375
6	Preference dividends	**(17,640)**	(17,648)	**(31,195)**	(31,541)
	Profit Attributable to Ordinary Shareholders	**13,407**	32,920	**23,708**	58,834
	Ordinary dividends	–	–	–	–
19	**Retained Profit for the Year**	**13,407**	32,920	**23,708**	58,834
7	**Basic Earnings per Share**	**27.9p**	78.1p	**$0.49**	$1.40

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 45 to 49 are also presented expressed in US dollars using the approximate average rate for the year for the profit and loss account (1991: $1.7684 = £1, 1990: $1.7872 = £1), the rate in effect on 31 December for the balance sheets (1991: $1.8710 = £1, 1990: $1.9300 = £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. Movements in reserves are set out in note 19.

Consolidated Balance Sheet

As at 31 December 1991

Notes		1991 £000	1990 £000	1991 $000	1990 $000
	Fixed Assets				
9	Intangible assets	**350,000**	350,000	**654,850**	675,500
10	Tangible assets	**132,960**	136,223	**248,768**	262,910
11	Investments	**15,056**	12,543	**28,170**	24,208
		498,016	498,766	**931,788**	962,618
	Current Assets				
12	Stocks and work in progress	**62,796**	61,955	**117,491**	119,573
13	Debtors	**631,245**	606,234	**1,181,059**	1,170,032
14	Investments	**1,908**	8,679	**3,570**	16,751
	Cash at bank and in hand	**205,478**	229,455	**384,449**	442,847
		901,427	906,323	**1,686,569**	1,749,203
15	**Creditors:** Amounts falling due within one year	**(969,922)**	(985,688)	**(1,814,724)**	(1,902,377)
	Net Current Liabilities	**(68,495)**	(79,365)	**(128,155)**	(153,174)
	Total Assets Less Current Liabilities	**429,521**	419,401	**803,633**	809,444
16	**Creditors:** Amounts falling due after more than one year	**(562,015)**	(534,647)	**(1,051,530)**	(1,031,869)
17	**Provisions for Liabilities and Charges**	**(125,602)**	(118,081)	**(235,001)**	(227,896)
	Net Liabilities	**(258,096)**	(233,327)	**(482,898)**	(450,321)
	Capital and Reserves				
18	Called up share capital	**26,860**	25,711	**50,255**	49,622
19	Share premium account	**193,904**	194,275	**362,794**	374,951
19	Goodwill reserve	**(844,969)**	(829,417)	**(1,580,937)**	(1,600,775)
19	Other reserves	**268,535**	291,955	**502,429**	563,473
19	Profit and loss account	**87,682**	73,847	**164,053**	142,525
	Shareholders' Funds	**(267,988)**	(243,629)	**(501,406)**	(470,204)
	Minority interests	**9,892**	10,302	**18,508**	19,883
	Total Capital Employed	**(258,096)**	(233,327)	**(482,898)**	(450,321)

Signed on behalf of the Board on 5 June 1992
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 45 to 49 are also presented expressed in US dollars using the approximate average rate for the year for the profit and loss account (1991: $1.7684 = £1, 1990: $1.7872 = £1), the rate in effect on 31 December for the balance sheets (1991: $1.8710 = £1, 1990: $1.9300 = £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 1991

Notes		1991 £000	1990 £000	1991 $000	1990 $000
	Fixed Assets				
10	Tangible assets	**236**	459	**442**	886
11	Investments	**536,694**	460,195	**1,004,154**	888,176
		536,930	460,654	**1,004,596**	889,062
	Current Assets				
13	Debtors	**100,458**	64,521	**187,957**	124,526
	Cash at bank and in hand	**358**	14,768	**670**	28,502
		100,816	79,289	**188,627**	153,028
15	**Creditors:** Amounts falling due within one year	**(119,442)**	(42,647)	**(223,476)**	(82,309)
	Net Current (Liabilities)/Assets	**(18,626)**	36,642	**(34,849)**	70,719
	Total Assets Less Current Liabilities	**518,304**	497,296	**969,747**	959,781
16	**Creditors:** Amounts falling due after more than one year	**(39,673)**	(18,500)	**(74,228)**	(35,705)
17	**Provisions for Liabilities and Charges**	**(20,598)**	(2,958)	**(38,539)**	(5,709)
	Net Assets	**458,033**	475,838	**856,980**	918,367
	Capital and Reserves				
18	Called up share capital	**26,860**	25,711	**50,255**	49,622
19	Share premium account	**193,904**	194,275	**362,794**	374,951
19	Merger reserve	**276,239**	265,064	**516,843**	511,573
19	Profit and loss account	**(38,970)**	(9,212)	**(72,912)**	(17,779)
	Total Capital Employed	**458,033**	475,838	**856,980**	918,367

Signed on behalf of the Board on 5 June 1992
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 45 to 49 are also presented expressed in US dollars using the approximate average rate for the year for the profit and loss account (1991: \$1.7684 = £1, 1990: \$1.7872 = £1), the rate in effect on 31 December for the balance sheets (1991: \$1.8710 = £1, 1990: \$1.9300 = £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 1991

	1991 £000	1990 £000	1991 $000	1990 $000
Source of Funds				
Profit before exceptional items	**38,363**	90,014	**67,841**	160,873
Adjustments not involving the movement of funds:				
Depreciation	**25,906**	25,404	**45,812**	45,509
(Decrease)/increase in other provisions	**(1,629)**	3,296	**(2,881)**	5,891
Profit on disposal of tangible fixed assets and investments	**(17)**	(657)	**(30)**	(1,174)
Minority interests in retained profit for the year	**(1,494)**	(3,096)	**(2,642)**	(5,533)
Total Funds from Operations	**61,129**	115,021	**108,100**	205,566
Funds from other sources:				
Drawdown of medium and long term debt	**43,773**	75,305	**81,899**	145,339
Rescheduling of short term debt as long term	–	30,737	–	59,322
Proceeds from sale of tangible fixed assets	**4,485**	8,483	**7,931**	15,161
Proceeds from sale of investment	**7,708**	–	**13,631**	–
Shares issued as part of earnout payments made relating to the acquisition of subsidiary undertakings in prior years	**11,954**	10,431	**21,140**	18,642
Proceeds from issues of Ordinary and Preference shares	–	46	–	82
	129,049	240,023	**232,701**	444,112
Application of Funds				
Taxation paid	**19,903**	33,256	**35,196**	59,399
Dividends paid	–	27,529	–	49,200
Repayment of loans	**12,927**	21,246	**22,860**	37,971
Purchase of tangible fixed assets	**21,294**	32,816	**37,656**	58,649
Increase in fixed asset investments	**2,281**	2,634	**4,034**	4,707
Decrease in creditors and provisions due after more than one year	**5,762**	45,972	**10,781**	88,726
Decrease in minority interests	**410**	1,978	**767**	3,818
Goodwill arising from earnout payments made relating to the acquisition of subsidiary undertakings in prior years	**26,727**	41,848	**47,262**	74,791
Reorganisation and rationalisation costs	**15,009**	6,000	**26,542**	10,723
Banking syndicate and refinancing expenses	**5,000**	8,000	**8,842**	14,298
Exchange movements	**9,837**	(27,848)	**20,241**	(48,131)
	119,150	193,411	**214,181**	354,151

Consolidated Statement of Source and Application of Funds

For the year ended 31 December 1991

	1991 £000	1990 £000	1991 $000	1990 $000
Increase/(Decrease) in Working Capital				
Stocks and work in progress	**(1,654)**	(29,049)	**(3,095)**	(56,065)
Debtors	**12,889**	(32,491)	**24,115**	(62,708)
Investments	**(286)**	(4,565)	**(535)**	(8,810)
Creditors: amounts falling due within one year	**(7,509)**	67,350	**(14,049)**	129,986
	3,440	1,245	**6,436**	2,403
	6,459	45,367	**12,084**	87,558
Movements in Net Liquid Funds				
Cash at bank	**(23,977)**	(4,162)	**(44,861)**	(8,033)
Bank loans and overdrafts	**30,436**	49,529	**56,945**	95,591
	6,459	45,367	**12,084**	87,558

There have been no material acquisitions of subsidiary undertakings in the year.

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 45 to 49 are also presented expressed in US dollars using the approximate average rate for the year for the profit and loss account (1991: $1.7684 = £1, 1990: $1.7872 = £1), the rate in effect on 31 December for the balance sheets (1991: $1.8710 = £1, 1990: $1.9300 = £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 by geographical area to Group revenue and trading profit were as follows:

	Revenue		Trading Profit	
	1991 £000	1990 £000	**1991 £000**	1990 £000
United Kingdom	**259,185**	271,218	**14,106**	30,729
United States	**506,201**	559,518	**36,665**	62,408
Canada	**40,358**	40,524	**2,080**	1,891
Continental Europe	**252,942**	255,766	**21,592**	24,207
Rest of the World	**145,732**	137,074	**9,727**	13,710
	1,204,418	1,264,100	**84,170**	132,945

There is no significant cross border trading. Of the exceptional items, net expenses of £3,931,000 (1990: net income £5,692,000) arose in the United Kingdom, net expenses of £4,943,000 (1990: £2,210,000) in the United States, £372,000 (1990: £21,000) in Canada, £1,290,000 (1990: £2,399,000) in Continental Europe and £1,208,000 (1990: £986,000) in the Rest of the World. Net income of £29,486,000 (1990: net expenses £50,000) has not been allocated geographically.

	1991 £000	1990 £000
Geographical analysis of non-interest bearing assets/(liabilities) of the Group is as follows:		
United Kingdom	**44,424**	34,194
United States	**(111,338)**	(103,979)
Canada	**12,958**	11,470
Continental Europe	**78,744**	76,534
Rest of the World	**71,530**	48,913
	96,318	67,132
Items not allocated in the above geographical analysis:		
Net cash and loans	**(333,816)**	(297,501)
Provision for Preference dividends	**(20,598)**	(2,958)
Net liabilities in the Balance Sheet	**(258,096)**	(233,327)

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

2 **Profit on Ordinary Activities Before Taxation**

	1991 £000	1990 £000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Cost of sales	**188,227**	188,594
Administration and other operating expenses	**937,386**	949,339
Other operating income	**(1,490)**	(1,546)
Share of profits of associated companies before tax	**(3,875)**	(5,258)
Exceptional items (see below)	**(17,742)**	(26)
These amounts include:		
Depreciation of and amounts written off		
owned tangible fixed assets	**25,224**	24,828
assets held under finance leases and hire purchase contracts	**682**	636

	1991 £000	1990 £000
Operating lease rentals		
– plant and machinery	**15,234**	14,458
– property	**85,925**	79,966
Hire of plant and machinery	**1,478**	1,360
Auditors' remuneration	**2,405**	2,744
Exceptional items comprise:		
– Property Provisions for excess property	**9,510**	–
Release of excess property provisions	**(9,765)**	–
– Release of other excess liabilities	**(34,486)**	(7,950)
– Reorganisation and rationalisation costs	**15,009**	6,000
– Costs of refinancing in 1991	**2,500**	8,000
– Banking syndicate expenses	**2,500**	–
– Profit on sale of assets	**(3,010)**	–
– Inducement to enter property leases	–	(6,076)
	(17,742)	(26)

Release of excess property provisions relates to provisions, established at the date of acquisition of subsidiary undertakings, which have subsequently proved not to be required. Release of other excess liabilities relates to liabilities established in prior years, principally on acquisition, which have also proved not to be required; these relate principally to debtors, work in progress, taxation and employment agreements.

An amount of £2,500,000 has been provided for the costs in respect of current discussions with the Group's banking syndicate. Any further costs will be accounted for in future periods.

3 Interest Payable and Similar Charges

	1991 £000	1990 £000
On bank loans and overdrafts, and other loans:		
– repayable within five years, by instalments	**687**	461
– repayable within five years, not by instalments	**16,309**	14,358
	16,996	14,819
On all other loans	**38,240**	42,387
	55,236	57,206

4 Emoluments of Directors and Employees

	1991 £000	1990 £000
Emoluments of directors and employees during the year amounted to:		
Wages and salaries	**510,835**	531,208
Social security costs	**50,902**	49,563
Other pension costs	**21,571**	22,750
	583,308	603,521

The average weekly number of persons employed by the Group during the year was as follows:	1991 Number	1990 Number
United Kingdom	**3,791**	4,158
Overseas	**17,427**	18,432
	21,218	22,590

4 **Emoluments of Directors and Employees** *continued*

	1991 £000	1990 £000
Directors' emoluments:		
Directors of the Company received the following remuneration:		
Emoluments including profit related bonuses and pension contributions	**1,093**	1,179

The directors' emoluments include £508,000 (1990: £507,000) in respect of the highest paid director, who received no pension contributions and waived £145,000 (1990: £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.

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

	1991 Number	1990 Number
£nil to £5,000	**1**	1
£5,001 to £10,000	**1**	–
£40,001 to £45,000	–	1
£50,001 to £55,000	**1**	–
£75,001 to £80,000	**1**	2
£80,001 to £85,000	**1**	–
£185,001 to £190,000	**1**	–
£300,001 to £305,000	–	1
£505,001 to £510,000	**1**	1

5 **Tax on Profit on Ordinary Activities**

	1991 £000	1990 £000
The tax charge is based on the profit for the year and comprises:		
Corporation tax at 33.25% (1990: 35%)	**(1,129)**	14,022
Deferred taxation	**7,878**	748
Overseas taxation	**16,815**	21,606
	23,564	36,376

The Group's effective tax rate is greater than the United Kingdom rate of 33.25% for the year. This is due to the fact that a significant part of overseas income is subject to higher levels of taxation while, in the United States, losses after interest expense are not currently utilised. The exceptional items (note 2), which carry no significant tax charge, mitigate this effect.

6 **Preference Dividends**

	1991 £000	1990 £000
8.25p (net) Convertible Cumulative Redeemable Preference shares of 10p each	**17,640**	17,648

The charge for Preference dividends in the year represents amounts provided for future payments which cannot currently be made due to the insufficiency of distributable reserves in the Company (note 19).

7 **Earnings per Share**

Basic earnings per share have been calculated on a net basis using the profit attributable to ordinary shareholders of £13,407,000 (1990: £32,920,000) and the average number of Ordinary shares in issue during the year of 48,021,083 (1990: 42,134,778 shares).

Fully diluted earnings per share for the year have not been stated as there is no material difference between basic and fully diluted earnings per share.

The Group has 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 **Parent Company**

As provided by section 230, Companies Act 1985, 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 £12,118,000 (1990: loss £15,616,000) in respect of the Company.

9 **Intangible Fixed Assets**

	1991 £000	1990 £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 originally 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 Freehold £000	Land and Buildings Leasehold £000	Fixtures Fittings & Equipment £000	Total £000
Cost or valuation:				
Beginning of year	**17,212**	**76,270**	**98,012**	**191,494**
Additions	**42**	**7,307**	**13,945**	**21,294**
Disposals	**(851)**	**(1,315)**	**(5,876)**	**(8,042)**
Release of excess provisions (note 2)	**675**	–	–	**675**
Exchange adjustments	**233**	**1,464**	**1,255**	**2,952**
End of year	**17,311**	**83,726**	**107,336**	**208,373**
Depreciation:				
Beginning of year	**711**	**16,400**	**38,160**	**55,271**
Charge	**550**	**6,265**	**19,091**	**25,906**
Disposals	**(60)**	**(848)**	**(4,453)**	**(5,361)**
Exchange adjustments	**33**	**(181)**	**(255)**	**(403)**
End of year	**1,234**	**21,636**	**52,543**	**75,413**
Net book value:				
31 December 1991	**16,077**	**62,090**	**54,793**	**132,960**
31 December 1990	**16,501**	**59,870**	**59,852**	**136,223**

Leasehold land and buildings comprises £2,744,000 (1990: £3,235,000) held on long leasehold and £59,346,000 (1990: £56,635,000) held on short leasehold. Leased assets (other than leasehold property) included above have a net book value of £1,863,000 (1990: £843,000).

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 £11,776,000 (1990: £13,226,000); the historic net book value of such land and buildings is £5,839,000 (1990: £7,056,000).

10 **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	207	708	915
Additions	2	51	53
Disposals	(83)	(69)	(152)
End of year	126	690	816
Depreciation:			
Beginning of year	27	429	456
Charge	20	153	173
Disposals	–	(49)	(49)
End of year	47	533	580
Net book value:			
31 December 1991	79	157	236
31 December 1990	180	279	459

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	11,436	1,107	12,543	460,195
Additions	–	–	–	76,499
Share of profits of associated undertakings	2,281	–	2,281	–
Exchange adjustments	197	35	232	–
End of year	13,914	1,142	15,056	536,694

Included within Company additions are amounts arising due to the capitalisation of inter-company loans of £37,306,000.

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

Notes to the Accounts *continued*

12 Stocks and Work in Progress

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

	Group	
	1991	1990
	£000	£000
Raw materials and consumables	**667**	673
Work in progress	**59,504**	58,923
Finished goods and goods for resale	**2,625**	2,359
	62,796	61,955

13 Debtors

The following are included in the net book value of debtors:
Amounts falling due within one year:

	Group		Company	
	1991	1990	**1991**	1990
	£000	£000	**£000**	£000
Trade debtors	**517,927**	491,187	–	–
ACT recoverable	**7,229**	7,428	**4,756**	4,756
Corporate income taxes recoverable	**3,473**	5,160	–	103
VAT and sales taxes recoverable	**6,500**	10,080	**227**	132
Other debtors	**39,470**	35,039	**277**	458
Prepayments and accrued income	**40,087**	42,424	**330**	320
Amounts owed by subsidiary undertakings	–	–	**94,868**	58,752
	614,686	591,318	**100,458**	64,521
Amounts falling due after more than one year:				
Other debtors	**11,231**	9,614	–	–
Prepayments and accrued income	**5,328**	5,302	–	–
	16,559	14,916	–	–
Total debtors	**631,245**	606,234	**100,458**	64,521

14 Current Asset Investments

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

	Group	
	1991	1990
	£000	£000
Unlisted investments, at cost	**1,908**	2,194
Investment listed in the United Kingdom	–	6,485
	1,908	8,679

The investment listed in the United Kingdom in 1990 represented the Group's 22.9% holding in Abbott Mead Vickers plc and was included at cost plus share of profits since acquisition. The investment was sold in February 1991 for £7,708,000; the profit on sale has been included within exceptional items as part of the profit on sale of assets (see note 2).

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

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

	Group		Company	
	1991	1990	**1991**	1990
	£000	£000	**£000**	£000
Bank loans and overdrafts (note 16)	**33,000**	63,497	**13,212**	12,996
Unsecured loan notes	**3,299**	4,413	**3,299**	4,413
Trade creditors	**599,031**	560,298	–	–
Taxation and social security	**80,749**	80,342	**2,420**	13,626
Due to vendors of acquired companies	**10,691**	19,714	–	–
Deferred income	**34,575**	40,027	–	–
Other creditors and accruals	**208,577**	217,397	**9,546**	11,612
Amounts due to subsidiary undertakings	–	–	**90,965**	–
	969,922	985,688	**119,442**	42,647

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

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

	Group		Company	
	1991	1990	**1991**	1990
	£000	£000	**£000**	£000
Bank loans	**494,649**	451,116	**9,000**	10,000
Unsecured loan notes	**8,345**	7,930	**1,170**	1,170
Corporate income taxes payable	**22,788**	24,164	**14,980**	6,159
Due to vendors of acquired companies	**1,665**	1,611	–	–
Other creditors and accruals	**34,568**	49,826	**261**	1,171
Amounts due to subsidiary undertakings	–	–	**14,262**	–
	562,015	534,647	**39,673**	18,500

In April 1991, the Group entered into a Credit Agreement with a syndicate of international banks. Under this 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 two years. The Credit Agreement also requires repayment or refinancing of the Group's committed medium term working capital facility by June 1993.

Under the Credit Agreement, borrowings are secured by pledges of the issued share capital of the majority of the Group's subsidiaries.

The unsecured loan notes are repayable during the years 1992 to 1997. Certain of the notes carry warrants to subscribe for Ordinary shares of the Company (note 18).

Note 23 contains details of proposed amendments to the Group's debt structure

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

	Group		Company	
	1991	1990	**1991**	1990
	£000	£000	**£000**	£000
Within 1-2 years	**203,261**	2,131	**9,000**	–
Within 2-5 years	**245,934**	310,586	**1,107**	11,170
Over 5 years – by instalments	**53,799**	146,329	–	–
	502,994	459,046	**10,107**	11,170

17 **Provisions for Liabilities and Charges**

Provisions for liabilities and charges comprise:

	Group		Company	
	1991	1990	**1991**	1990
	£000	£000	**£000**	£000
Deferred taxation	**34,939**	34,664	–	–
Property	**29,418**	39,757	–	–
Pension and other	**40,647**	40,702	–	–
Preference dividends	**20,598**	2,958	**20,598**	2,958
	125,602	118,081	**20,598**	2,958

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 1991 and no provision is made for tax that would arise on the remittance of overseas earnings. At 31 December 1991, the provision for deferred taxation comprises current timing differences of £20,339,000 (1990: £11,104,000) and non-current timing differences of £14,600,000 (1990: £23,560,000).

Property provisions comprise amounts set aside in respect of certain property leases carrying commitments in excess of foreseeable requirements. The release of surplus provisions has been disclosed as an exceptional item (note 2).

Pension and other provisions includes £23,898,000 (1990: £22,617,000) 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 and 1991 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**	**Preference Dividends**
	£000	**£000**	**£000**	**£000**	**£000**
Beginning of year	**34,664**	**39,757**	**40,702**	**2,958**	**2,958**
Charged to profit and loss account	**7,878**	**2,833**	**6,599**	**17,640**	**17,640**
Released unused	**(8,148)**	**(9,765)**	**(585)**	–	–
Utilised	–	**(5,498)**	**(7,057)**	–	–
Reclassifications	–	–	**(752)**	–	–
Exchange adjustments	**545**	**2,091**	**1,740**	–	–
End of year	**34,939**	**29,418**	**40,647**	**20,598**	**20,598**

Amounts released unused relate to provisions established on the acquisition of The Ogilvy Group, Inc. Amounts utilised include £2,514,000 and £9,997,000 relating to provisions set up on the acquisition of JWT Group, Inc. and The Ogilvy Group, Inc. respectively.

18 **Called up Share Capital**

	1991 £	1990 £
Authorised:		
106,000,000 (1990: 106,000,000) Ordinary shares of 10p each	**10,600,000**	10,600,000
214,000,000 (1990: 214,000,000) 8.25p (net) Convertible Cumulative Redeemable Preference shares of 10p each	**21,400,000**	21,400,000
Nil (1990: 200) Deferred Redeemable Convertible shares of £1 each	–	200
5,000 (1990: 10,000) "A" Ordinary Convertible shares of 10p each	**500**	1,000
8,000 (1990: 10,075) "B" Ordinary Convertible shares of 10p each	**800**	1,007
	32,001,300	32,002,207
Allotted, called-up and fully paid:		
54,763,752 (1990: 43,265,814) Ordinary shares of 10p each	**5,476,375**	4,326,581
213,825,714 (1990: 213,826,148) 8.25p (net) Convertible Cumulative Redeemable Preference shares of 10p each	**21,382,571**	21,382,615
Nil (1990: 200) Deferred Redeemable Convertible shares of £1 each	–	200
5,000 (1990: 5,000) "A" Ordinary Convertible shares of 10p each	**500**	500
8,000 (1990: 10,000) "B" Ordinary Convertible shares of 10p each	**800**	1,000
	26,860,246	25,710,896

During the year the Company allotted the following shares:

– 7,786,154 Ordinary shares with a nominal value of £778,616 and at a premium of £7,710,603 in further consideration for the acquisition of subsidiary undertakings.

– 63 Ordinary shares with a nominal value of £6 in respect of the conversion of Convertible Cumulative Redeemable Preference shares.

– 3,213,229 Ordinary shares with a nominal value of £321,323 in respect of the conversion of Deferred Redeemable Convertible shares.

– 498,492 Ordinary shares with a nominal value of £49,849 in respect of the conversion of "B" Ordinary Convertible shares.

The Ordinary shares allotted on the conversion of the Deferred Redeemable Convertible shares and of the "B" Ordinary Convertible shares were paid-up by the capitalisation of reserves standing to the credit of the Company's share premium account (note 19). These shares were valued at £3,464,255, which has been credited to the merger reserve in the Company's accounts.

The Convertible Cumulative Redeemable 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 Cumulative Redeemable Preference shares held. After conversion of 75% of the Convertible Cumulative Redeemable Preference shares, the Company has the right to require the conversion of the outstanding balance. Following the non payment of Preference dividends in October 1991, Preference shareholders have the right to vote at General Meetings of the Company on the basis of one vote for each share held.

The "A" and "B" Ordinary Convertible shares were issued to the vendors of certain companies acquired during 1986 and 1987 and are convertible into Ordinary shares of the Company based on profits in the period up to 31 May 1992. The number of Ordinary shares into which these shares may be converted is dependent upon the level of future profitability of the companies acquired. The Deferred Redeemable Convertible shares were cancelled on satisfaction of the final deferred payment due to the holders of such shares.

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 1992 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 3,003,106 (1990: 2,891,115) 10p Ordinary shares, exercisable between 1992 and 2001 at prices per share ranging from 155p to 755p.

Note 23 contains details of proposed amendments to the Group's capital structure.

19 **Reserves**

a) Group

Movements during the year were as follows:

	Share Premium Account £000	Goodwill Reserve £000	Other Reserves £000	Profit & Loss Account £000
Balance at beginning of year	194,275	(829,417)	291,955	73,847
Premium on shares issued during the year (note 18)	–	11,175	–	–
Capitalisation of share premium on issue of shares	(371)	–	–	–
Goodwill arising on consolidation written off (note 20)	–	(26,727)	–	–
Movement on revaluation reserve in year	–	–	(387)	428
Currency translation movement	–	–	(23,033)	–
Retained profit for the year	–	–	–	13,407
Balance at end of year	193,904	(844,969)	268,535	87,682

Other reserves at 31 December 1991 comprise: Capital Reserve £1,847,000; Currency Translation Reserve £85,865,000; and Revaluation Reserve £180,823,000. Cumulative goodwill resulting from acquisitions which has been written off amounts to £1,121,208,000.

b) Company

Movements during the year were as follows:

	Share Premium Account £000	Merger Reserve £000	Profit & Loss Account £000
Balance at beginning of year	194,275	265,064	(9,212)
Premium on shares issued during the year (note 18)	–	11,175	–
Capitalisation of share premium on issue of shares	(371)	–	–
Loss for the financial year (note 8)	–	–	(12,118)
Dividends provided (notes 6 and 17)	–	–	(17,640)
Balance at end of year	193,904	276,239	(38,970)

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

20 **Acquisitions**

The Group did not make any material acquisitions during 1991. Further amounts paid in respect of earlier acquisitions gave rise to goodwill of £26,727,000 (note 19).

21 **Guarantees and Other Financial Commitments**

a) Capital Commitments

At the end of the year, capital commitments were:

	Group	
	1991	1990
	£000	£000
Contracted for but not provided for	**4,017**	392
Authorised but not contracted for	**706**	417
	4,723	809

b) Contingent Liabilities

Acquisitions made in earlier years (excluding JWT Group, Inc. and The Ogilvy Group, Inc.) may give rise to further consideration resulting in goodwill in addition to that arising from payments to date. Any further payments will be payable in cash and Ordinary shares of the Company dependent upon the level of profitability of these acquired subsidiary undertakings over various periods up to 31 December 1996. 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 1991, would be:

	Payable in		1991	1990
	Shares	**Cash**	**Total**	Total
	£000	**£000**	**£000**	£000
Within one year from 31 December 1991	**10,776**	**16,450**	**27,226**	39,258
Within two to five years	**20,572**	**22,388**	**42,960**	71,256
	31,348	**38,838**	**70,186**	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 in 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 Group's 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.

Other contingent liabilities of approximately £20,000,000 have not been provided. The directors believe it is unlikely that these contingent liabilities will crystallise.

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 recovery 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. Maximum fees payable were initially £4 million but as a result of subsequent actions it is now estimated that the total amount payable, if any, will be less than £2 million.

No provision has been made for these fees in the accounts.

d) Operating Lease Commitments

The Group has entered into non cancellable leases in respect of plant and machinery. The total annual rental (including interest) for 1991 was £15,234,000 (1990: £14,458,000). 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 1991 was £85,925,000 (1990: £79,966,000). The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The Group pays for the insurance, maintenance and repair of these properties.

The minimum annual rentals payable in 1992 under the foregoing leases are as follows:

	Group	
	Plant and Machinery	**Property**
	£000	**£000**
In respect of operating leases which expire:		
– within 1 year	**2,864**	**6,187**
– within 2-5 years	**10,073**	**29,354**
– after 5 years	**66**	**45,122**
	13,003	**80,663**

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	
	1991	1990
	£000	£000
Defined contribution schemes	**17,261**	17,788
Defined benefit schemes	**4,310**	4,962
	21,571	22,750

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 three years. The major assumptions used by the actuaries were that in general the return on plan assets would be 9%, salary increases would be between 4% and 8% and pension increases would be 5%. The market value of the plan assets totalled £90m, and the actuarial value of the assets was sufficient to cover approximately 115% of the benefits which had accrued to members after allowing for expected future increases in salaries.

22 **Principal Operating Subsidiary Undertakings and Divisions**

The Company's principal subsidiary undertakings and divisions at 31 December 1991 are shown below together with a note of their principal activity and country of operation or registration. The Company directly or indirectly held 100% (except as noted) of each class of the issued shares of the subsidiaries.

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		
Ogilvy Adams & Rinehart	Public Relations	USA
Carl Byoir Associates	Public Relations	USA
Hill and Knowlton	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	Interior and Graphic Design	England
McColl Group	Architecture, Interior, Graphic and Product Design	England
Geoffrey Reid	Architecture	England
Oakley Young	Point-of-Sale, Graphic and Retail Design	England
Sampson Tyrrell	Corporate and Brand Identity Design	England
SBG Partners	Packaging and Corporate Identity Design	USA
Walker Group/CNI	Retail Architecture, Interior and Graphic Design	USA
VAP Group	Graphic Design	England
P&I 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	Design and Marketing	Scotland
Promotional Campaigns Worldwide	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
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, Dillon & Asociados	Hispanic Advertising	USA
Ogilvy & Mather Direct	Direct Marketing	USA
Pace Communications Group	Real Estate Marketing	USA
The RTC Group	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

Further information on group companies can be obtained from the Group contacts on the inside back cover.

Non-coterminous year-ends

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. Japan Market Research Bureau KK has a year-end of 31 May for commercial reasons. The 1991 Group financial statements include accounts in respect of both companies prepared for the year ended 31 December 1991.

The company has other subsidiary undertakings with year-ends other than 31 December. These companies perform administrative and other services or are intermediate holding companies for other WPP Group companies and do not otherwise trade. Their year ends range from 31 March to 30 November.

23 **Refinancing proposals**

In March 1992, the Company announced that it was assessing alternative ways of making significant improvements to the Group's liquidity and strengthening its capital structure, and was also in discussions with its banking syndicate regarding the negotiation of new facilities and adjustments to its bank covenants. As part of these discussions, a Joint Co-ordinating Committee comprising Bankers Trust, Barclays Bank, Citibank and J P Morgan was formed and the Company has had detailed discussions with this Committee on certain proposals. These discussions have advanced to the point where outline proposals were presented on 7 May 1992 to the full banking syndicate.

23 **Refinancing proposals** *continued*

The Co-ordinating Committee supports the principal features of these proposals which are summarised as follows. It is proposed that the Group's banking syndicate would subscribe approximately $275 million (approximately £150 million) for new low yielding convertible preferred shares, the proceeds from which would be applied to reducing bank borrowings. The banks would also provide sufficient liquidity to finance the Group's short term requirements. Each new convertible preferred share would be subscribed at a price of 60p (or up to 75p, depending on, *inter alia*, market conditions) and would be convertible into one Ordinary share. It is intended that there would be appropriate clawback arrangements for existing shareholders, pro rata to their holdings after conversion of the existing 8.25p Convertible Cumulative Redeemable Preference shares as referred to below, potentially reducing the number of shares subscribed by the banks.

As part of these arrangements, the Company would present proposals to the holders of its existing 8.25p Convertible Cumulative Redeemable Preference shares, whereby all these shares would be converted as a class into Ordinary shares. Under their existing terms each 8.25p Convertible Cumulative Redeemable Preference share is convertible into 0.147 Ordinary shares. It is envisaged that holders would be offered Ordinary shares equivalent to some four times these existing conversion terms.

These outline proposals are currently being considered by the banking syndicate. The proposals will also need to be considered and approved by the Company's shareholders.

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 June.

Annual General Meetings are held in London in July.

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