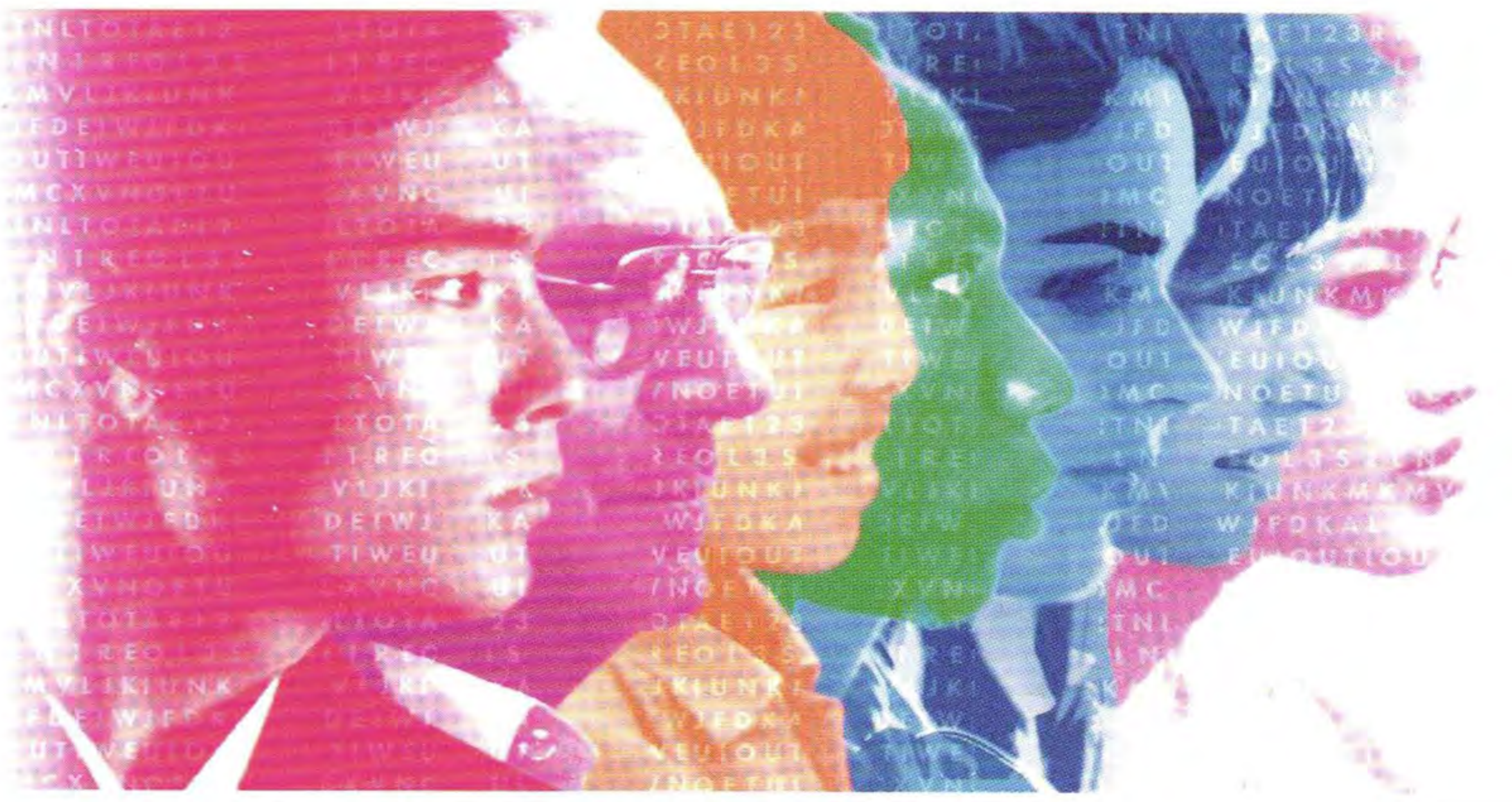
WPP Group plc

Annual Report and Accounts 1993



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

WPP Group plc

Strategic vision

To be the leading multi-national marketing services company. WPP is the world's leading marketing services group. We have a robust foundation of well-managed UK and US-based operations and are strongly positioned to take advantage of opportunities in the growth markets of Asia Pacific, Latin America and Central and Eastern Europe.

To understand and satisfy the increasingly complex marketing needs of our clients at every level from local to worldwide. The Group has 757 offices in 74 countries, and serves over 300 of the Fortune 500 companies. We work with over 100 clients in more than six countries.

To provide clients with a comprehensive and, when appropriate, integrated range of marketing services of the highest quality: both strategically and tactically. The Group covers six sectors offering a complete portfolio of marketing services. We work with 868 clients in two or more sectors, and with 330 clients in three or more sectors.

To ensure that each service provided returns added value to every client. In 1993, Group companies won over 900 effectiveness and creative awards on behalf of our clients.

To grow and maintain companies of such excellence that they provide the most stimulating career opportunities for talented professionals in all disciplines. The Group comprises 21 major marketing services brands, employing over 19,000 people.

To provide those professionals with rewards and incentives which encourage the greatest number to a sense of ownership. Seven per cent of the Group is owned by employees; and approximately four per cent of the Group is under option to employees. Group-wide short and long-term management incentive programmes are now in place.

Our business
Where we are:
where we're going

Making contact
The yellow pages

Industry issues
Marketing services:
trends and views

Financial report
Financial statements
for the year ended
31 December 1993

Financial summary

Group history to date

1986 was the first full year following our change in strategic direction from manufacturing to services and saw WPP 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 largely put in place the overall organisational structure required to meet the strategic vision.

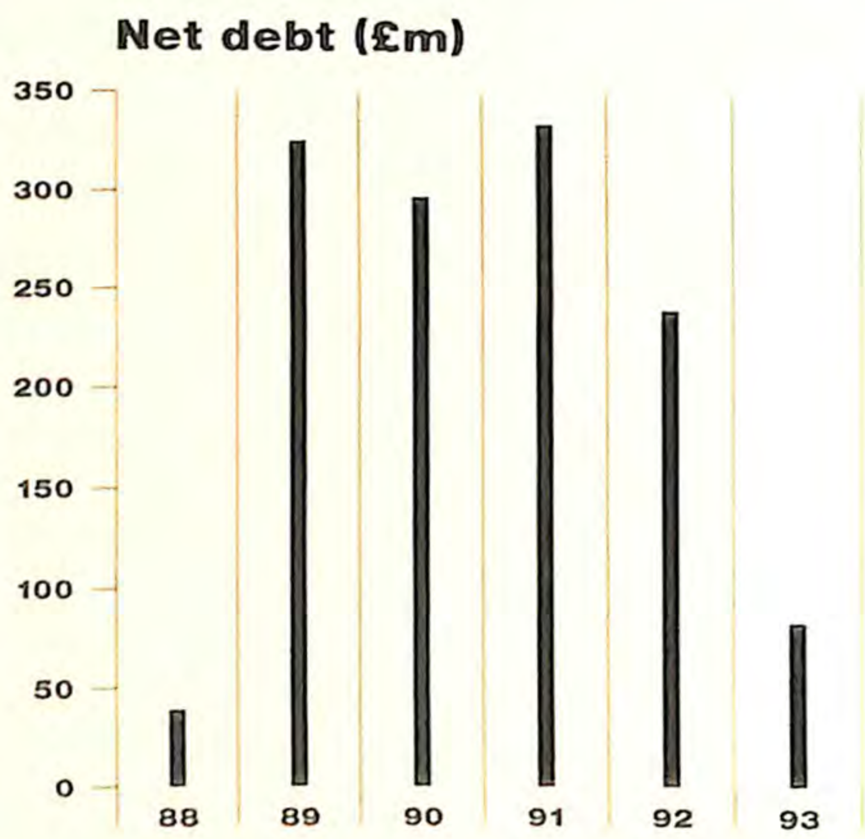
1990 saw continued organic growth and in-fill acquisitions, especially in the first half. However, the unexpectedly severe recession, which particularly affected the last quarter, resulted in a significant slow-down in major markets.

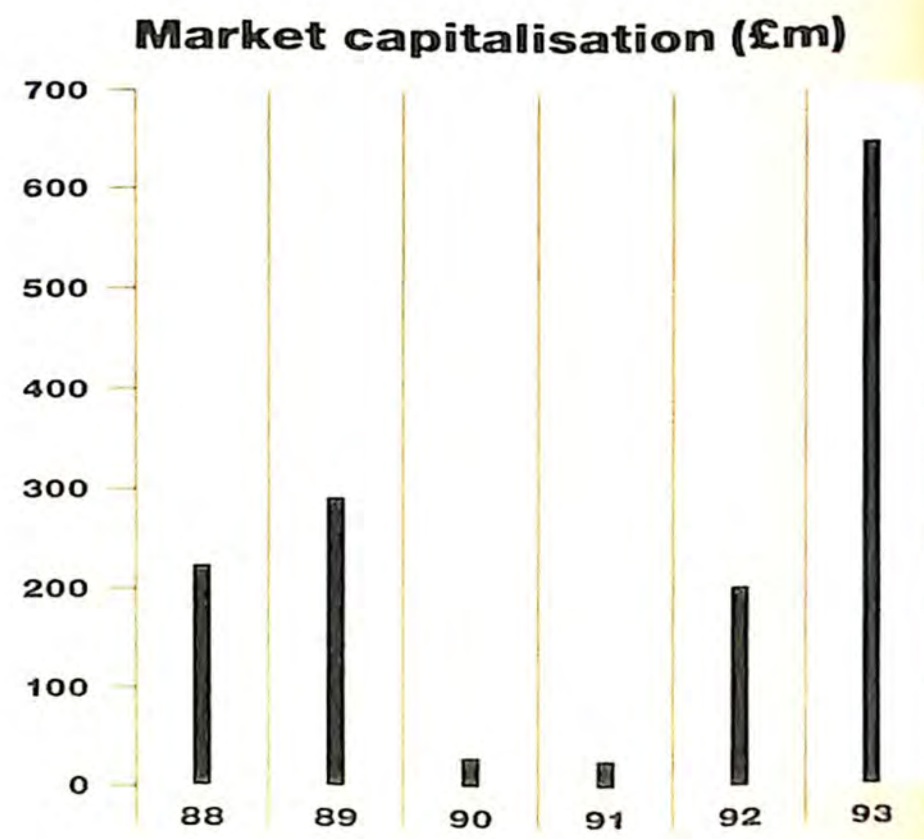
1991 was the first year since 1983 that profits fell and reflected the particularly severe recession in WPP's most significant markets in the United States and the United Kingdom.

1992 saw stability return in WPP's major markets and significant steps taken to improve the Group's capital structure.

1993 brought improvement in WPP's profitability and operating margins. In addition, further financing initiatives enhanced the Group's capital structure and liquidity.

	1993 £000	1992 £000	**% increase (decrease)**
Turnover	6,029,918	5,367,139	**12.3**
Revenue	1,430,704	1,273,448	**12.3**
Operating profit	94,990	70,755	**34.3**
Profit before taxation	54,351	7,768	**599.7**
Profit/(loss) after taxation	24,995	(9,465)	**–**
Attributable profit/(loss) to Ordinary shareholders	20,560	(11,929)	**–**
Basic earnings/(loss) per Ordinary share	4.9p	(8.0)p	**–**
Basic earnings/(loss) per ADS	$0.15	$(0.28)	**–**
Dividend per 10p Ordinary share	1.0p	–	**–**
Dividend per ADS	$0.03	–	**–**
Operating margin	6.7%	5.6%	**1.1**
Pre-tax margin	3.8%	0.6%	**3.2**

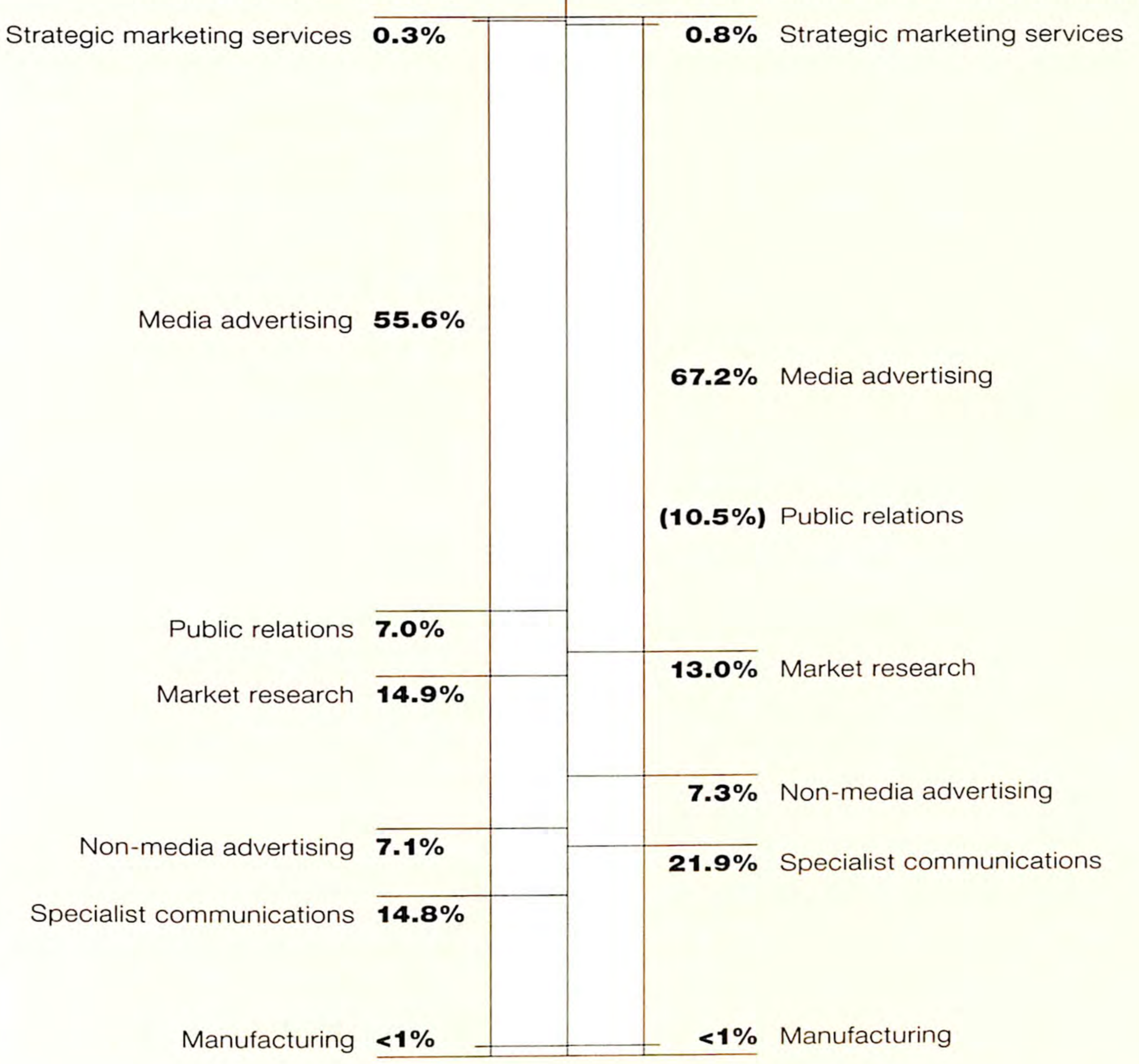




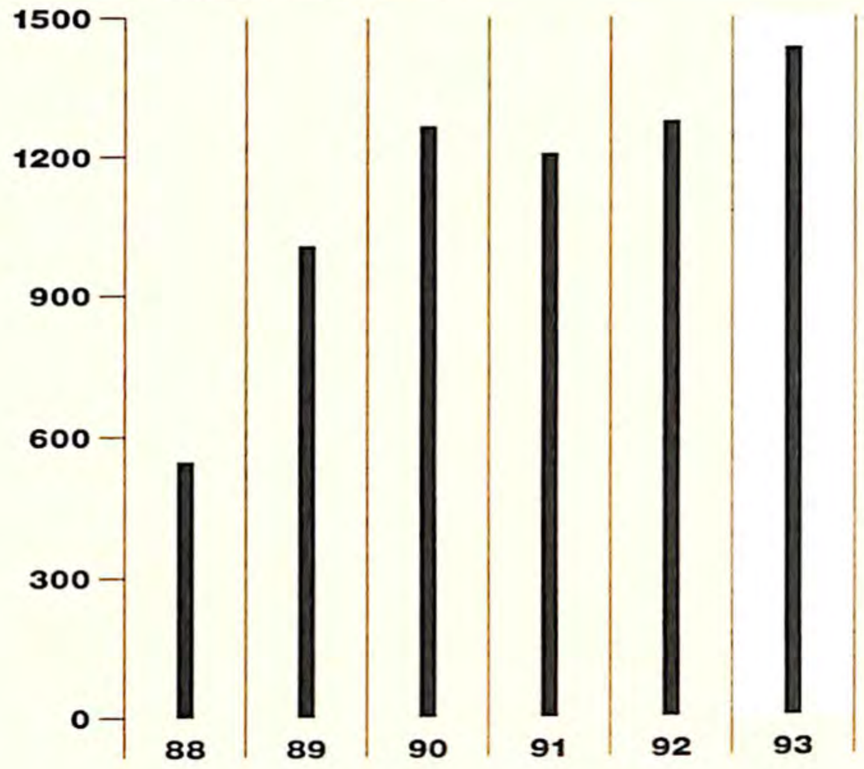
Market capitalisation shown is based on the fully diluted

This is a summary of the Group's financial performance.
For detailed information please turn to the financial report on pages 47-86.

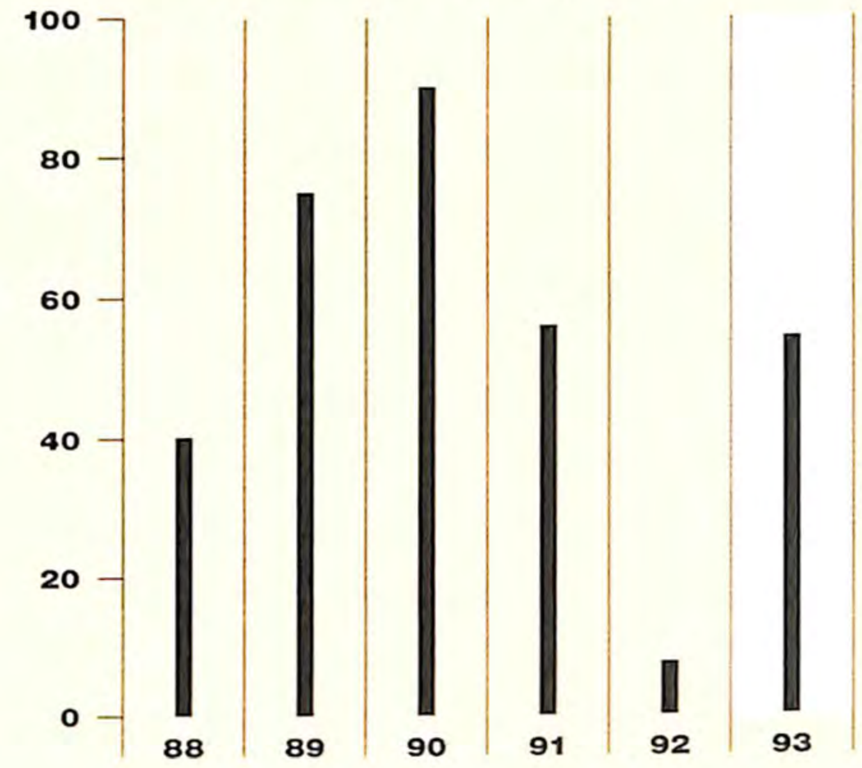
Revenue by activity / **Trading profit/(loss) by activity**



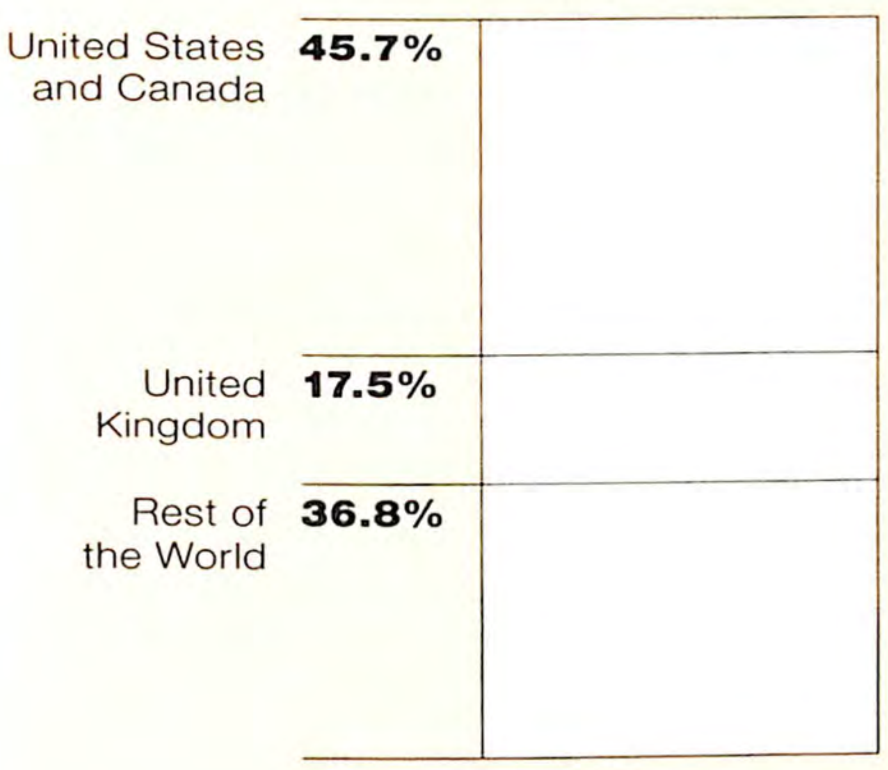
Revenue (£m)



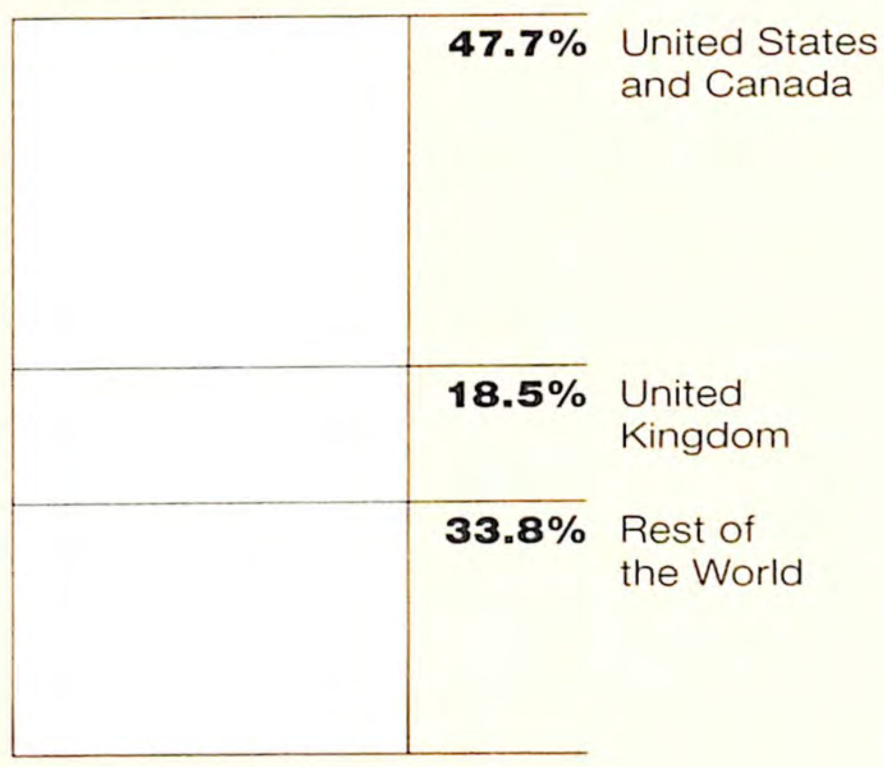
Profit before tax (£m)



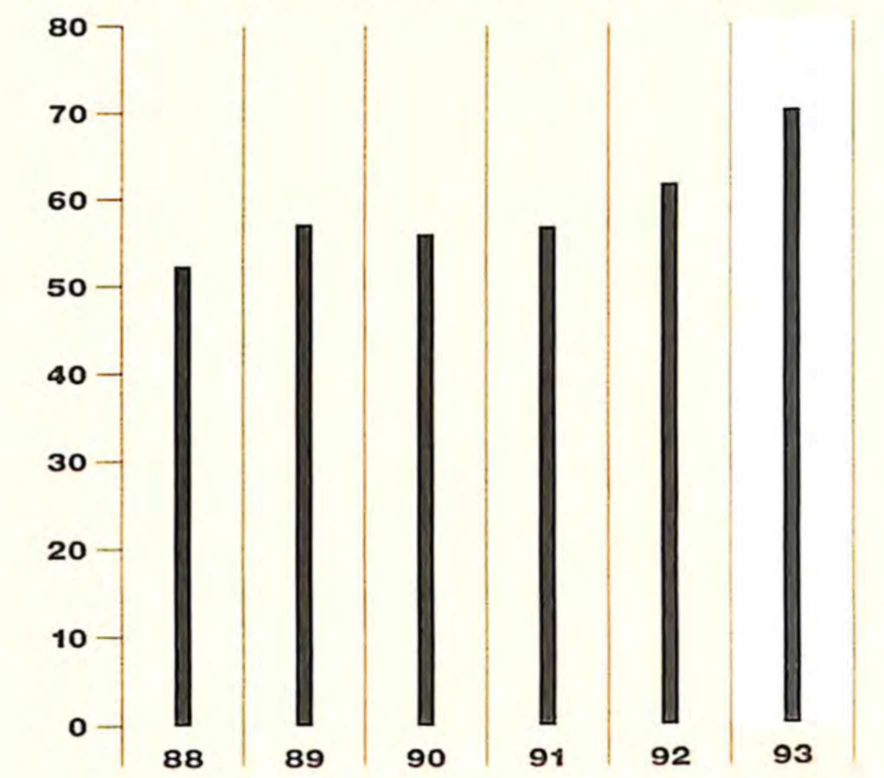
Revenue by geography



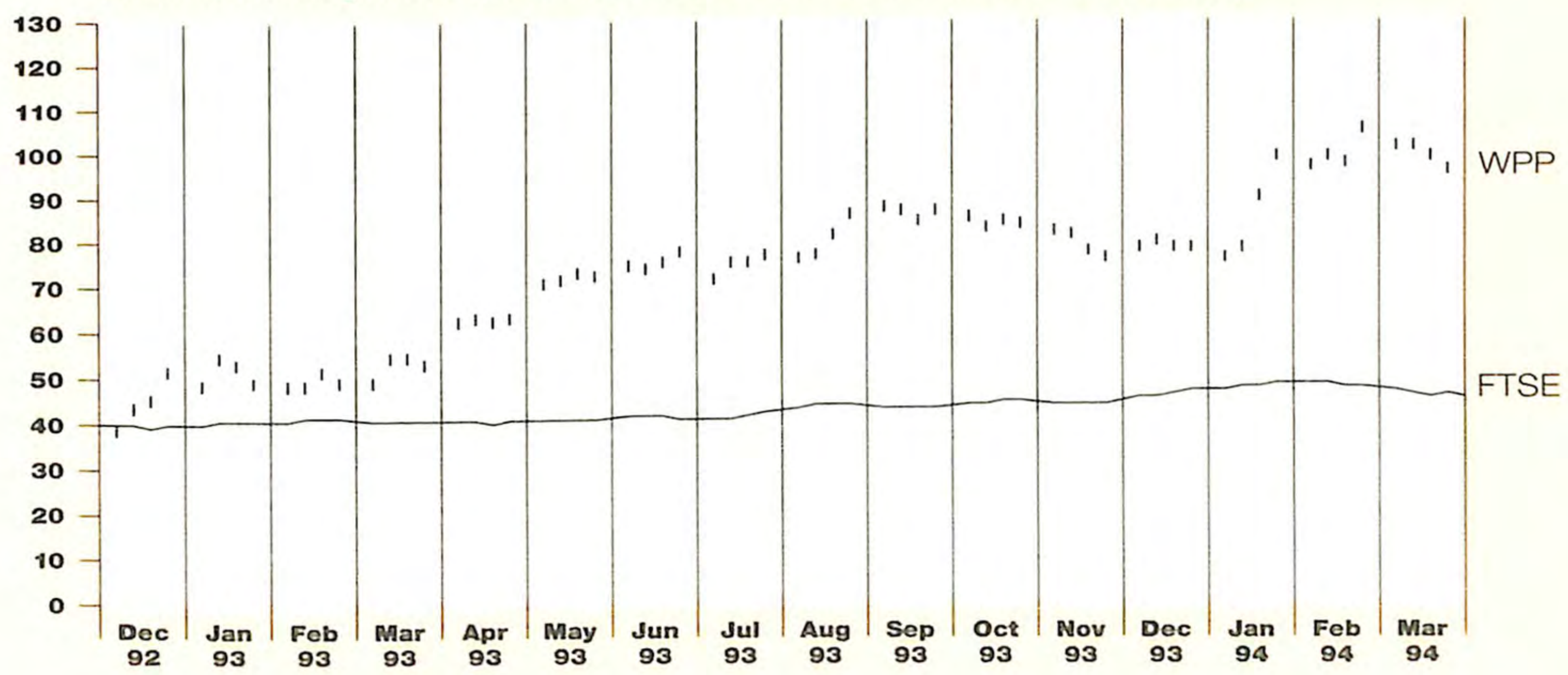
Trading profit by geography



Revenue per employee (£000)



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



Profit before tax per employee (£000)

Letter to share owners

1993 performance; strategy and developments

1993 performance

1993 was a much better year. Your shares increased in value by over 100% from 44p on 1 January to 89p on 31 December, reflecting improved financial results and an improvement in the Company's capital structure through a rights issue and the sale of non-core assets. The Company's market capitalisation rose over the same period by over four times from £105 million to £463 million.

This improvement in shareholder value is an indication of the value that the Group's array of marketing services has added to the operations of its clients in difficult economic times through the intellect, imagination, dedication and hard work of our people.

Revenues rose by over 12% to £1.431 billion and by over 4% in constant currency. Few other listed marketing services groups achieved this level of organic growth and as a result the Group gained market share.

This revenue increase in turn translated into a disproportionate increase in operating profit by over 34% to £94.9 million, reflecting an underlying improvement of 1.1% in operating margins to 6.7%. This was achieved primarily by careful control of staff and property costs.

In turn this resulted in an almost 600% increase in pre-tax profits to £54.4 million, reflecting the impact of a decline in interest rates on the Group's gearing and improved liquidity from the rights issue.

Basic earnings per share rose to 4.9p from a loss of 8.0p in 1992. As a result the Company will pay a net dividend per share of 1.0p, the first for three years.

A full operating review can be found on pages 48 to 51.

Group strategy and structure

The last two years have seen an improvement in the Group's financial performance and liquidity. Whilst there is no question of relaxing and not improving still further, the Group now has room to breathe and a chance to examine more rigorously its strategy and structure.

There is no doubt that increasing worldwide competition, improved technology and communications and the growth of own label or store brands have all intensified the pressure on our clients and have resulted in greater numbers of parity products and services. Clients are therefore becoming more and more dependent on our services to differentiate their products and services.

At the same time, as a result of these long-term competitive pressures and in the last few years as a result of the recession, the need to reduce costs and achieve "low-cost producer" positions has become increasingly important. Clients are delayering and restructuring their organisations with the objective of improving productivity. This trend has in turn been reinforced by improvements in technology which enable the rapid dissemination of information amongst client organisations, with top management no longer having sole access.

In this environment marketing services companies are becoming more important to their clients as a means of differentiating their goods and services and acting as an intelligence system throughout the world. Co-ordination of client activities, both functionally and geographically, is becoming essential particularly as out-sourcing of activities becomes more significant.

Future developments

The Holding Company is carefully examining how it can help operating companies grow revenues by adding increased value to the operations of its clients, its Group companies and to Group membership. An appointment of a Group director of strategy has recently been made.

Historically the Holding Company's activities have been confined mainly to financial functions such as financial control and monitoring and acquisitions and disposals.

Over the past two years increasing emphasis has been placed on the development of human resources by the appointment of a Board director in this area and the development of new highly competitive incentive plans. Additional emphasis will be placed on developing career planning, recruitment and training resources at both a Group and operating company level.

In addition, the Group's property management resources have been supplemented by three appointments which have already helped reduce the stock of surplus property and will increasingly co-ordinate Group property decisions.

Further Group initiatives are currently being developed in the areas of technology, procurement and practice development.

Recent developments in computer technology and telecommunications will not only have an impact on how marketing services are executed but also on the Group's organisational structure. The Group is currently exploring ways of linking its various operations by the latest hardware and software technology to form its own information highway and enable transfer of knowledge between its people.

The Group plans to exploit its buying power by developing a procurement function which will co-ordinate the operating companies' purchasing power more effectively. A Group procurement director has been appointed in London to co-ordinate purchasing functions across Group companies. The Group spends annually over £370 million on non-staff costs including £106 million on rent, £52 million on travel and associated costs and £24 million on utilities.

Finally and most importantly, the Group is developing a number of practice areas built around high growth sectors such as media, healthcare and convergence and interactive communications. See pages 10 and 11 for further details.

1994 outlook

In the first quarter of 1994, Group companies have been awarded a number of significant new assignments, totalling more than £33 million ($50 million) in revenues or £217 million ($326 million) in billings.

Budgets for the year have been prepared on a cautious basis and indicate a 1.5% improvement in revenues on a comparable basis. There has been no significant upturn in business in the first quarter of the year. However, the Group has operated in accordance with its budget. Revenues on a like-for-like basis for the first quarter were up by approximately 2% over last year at constant exchange rates.

Geographically, trading conditions in North America and Europe remain difficult, whilst in the Rest of the World, Asia Pacific and Latin America they continue to progress. Although there has been an improvement in confidence in North America and Europe, particularly in the fourth quarter of 1993, any recovery is still unstable and uncertain.

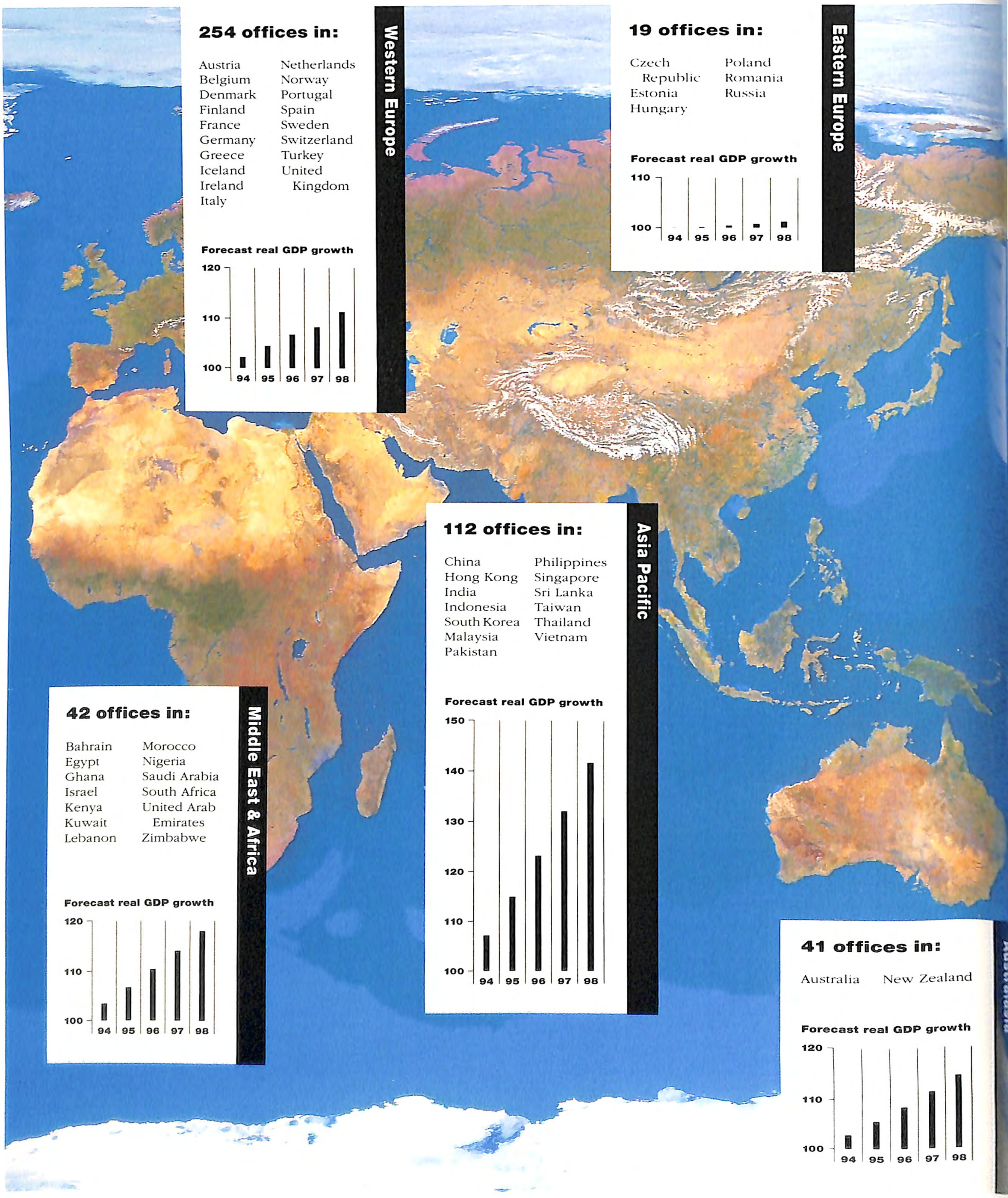
In addition, deflationary economic policies that have recently been introduced on both sides of the Atlantic may impact on the United States and United Kingdom economies. In these circumstances the Group's functional and geographic strengths, its new business record and improvements in cost controls will continue to be of paramount importance and ensure that the Group is well placed when real (as opposed to that in the financial markets) recovery comes.

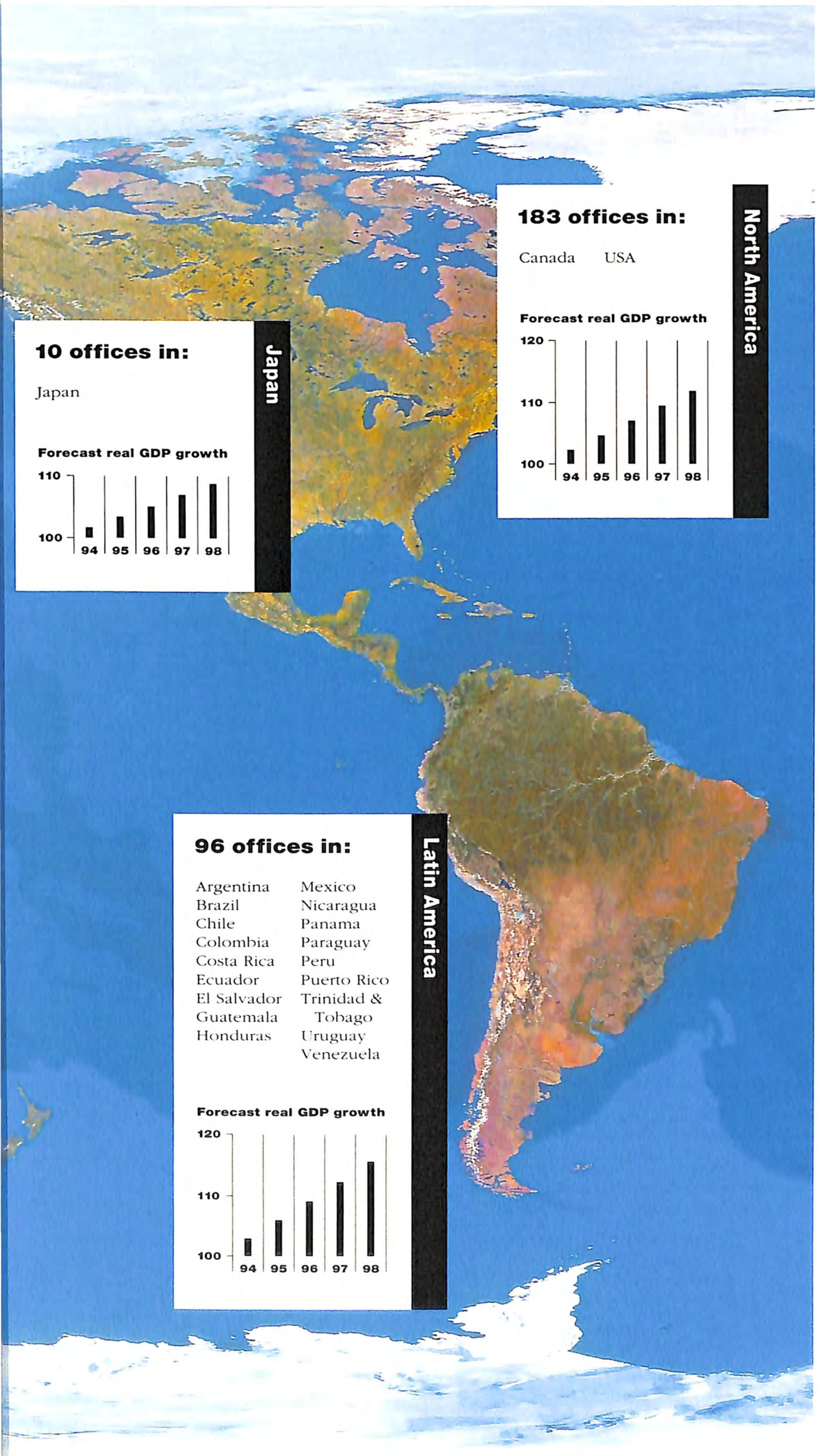
Gordon Stevens
Chairman

Martin Sorrell
Group chief executive

WPP worldwide

Servicing clients in mature and growing markets





GDP data source: EIU (1993 re-based = 100). Offices and locations at May 1994

WPP Group companies operate from 757 offices around the world. They enjoy leading positions in both the mature markets of Western Europe, Japan and North America and the emerging markets of Asia Pacific and Latin America.

As the chart illustrates, these emerging markets, though currently accounting for a small share of marketing services expenditure, are expected to show disproportionate growth over the next five years.

According to *Advertising Age's* 1993 Agency Report, WPP Group has a significantly greater share of the Asia Pacific market (excluding Japan) than any of its competitors. In Latin America, the Group has the second largest presence.

During 1993, the Group opened new offices and expanded activities in countries including China, Colombia, India, Korea, Poland, and Vietnam.

WPP Group

Providing a comprehensive range of marketing services - from local to worldwide

Strategic marketing services

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

Major WPP brands:

The Futures Group

The Henley Centre

Media advertising

The planning, production and placing of advertising for multinational and national advertisers in all categories.

Major WPP brands:

Cole & Weber

Conquest Europe

J. Walter Thompson Company

Lansdown Conquest

Ogilvy & Mather Worldwide

Public relations

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

Major WPP brands:

Carl Byoir & Associates

Hill and Knowlton

Ogilvy Adams & Rinehart

Timmons and Company

The Wexler Group

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.

Major WPP brands:

Millward Brown International
MRB Group
Research International

Non-media advertising

Sales promotion

Consumer and trade promotions; point-of-sale; on-pack offers.

Major WPP brands:

Einson Freeman
Mando Marketing
Promotional Campaigns Worldwide
The Marketing Consultancy

Audio visual communications

Video, audio visual and multimedia products and services; exhibitions and conferences; presentations, product launches and trade shows.

Major WPP brand:

MetroVideo

Identity, design and architecture

Architectural services; exhibitions; furniture, industrial, product, environmental, point-of-sale and retail design; packaging; corporate identity; marketing and corporate literature.

Major WPP brands:

Anspach Grossman Portugal
Business Design Group/McColl
Coley Porter Bell
Oakley Young 4th Dimension
SampsonTyrrell
SBG Partners
Scott Stern Associates
VAP Group
WalkerGroup/CNI

Specialist communications

Ethnic, business-to-business, corporate, pharmaceutical, travel, recruitment, retail advertising; direct mail and direct marketing; investor communications; corporate identity.

Major WPP brands:

A. Eicoff & Company
Brouillard Communications
EWA
Ferguson Communications Group
HLS CORP
J. Walter Thompson Direct
J. Walter Thompson Healthcare Group
Mendoza, Dillon & Asociados
Ogilvy & Mather Direct
Pace Communications Group
Primary Contact
The RTC Group
Thompson Recruitment Advertising

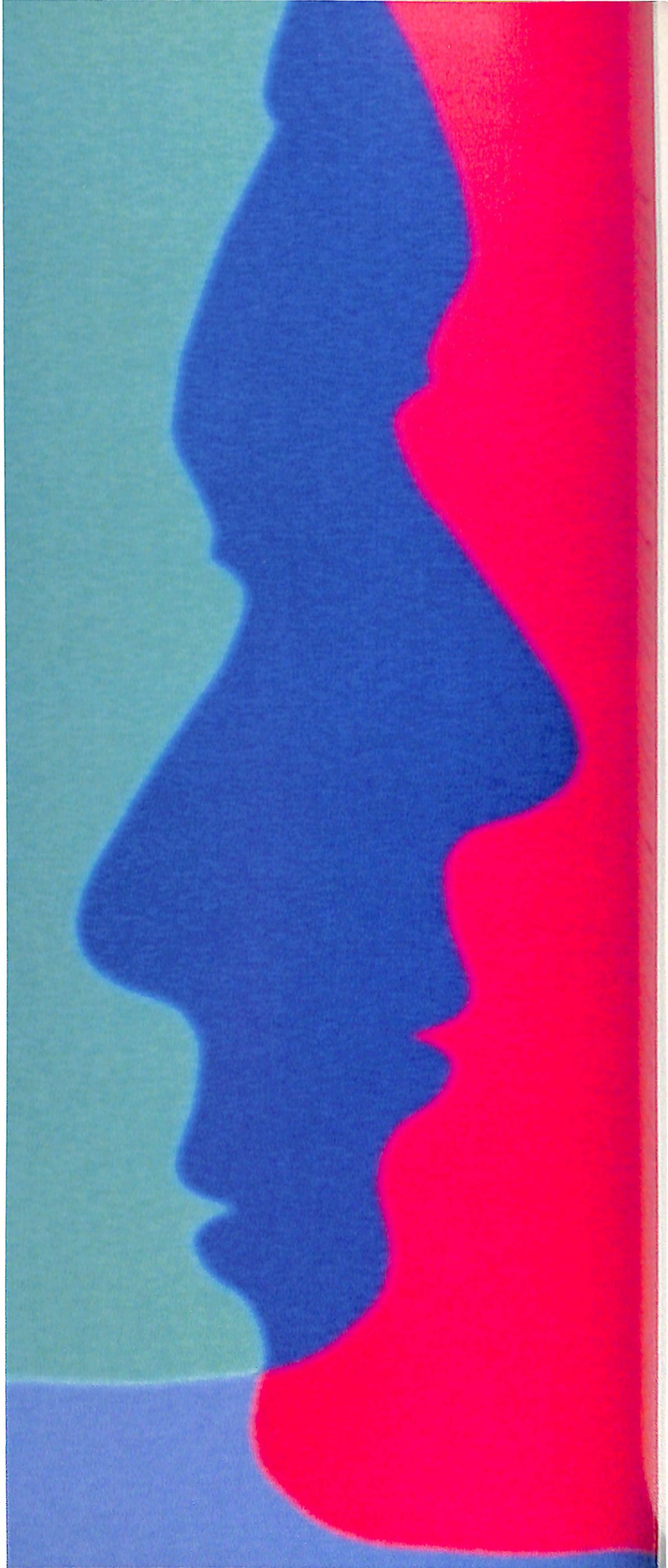
WPP Group developments

Anticipating client needs

Practice development

WPP's policy is to encourage its operating companies to practice and develop their own individual specialist skills. There are times, however, when it becomes of clear benefit to clients for Group companies, with shared experience in a given field, to form strategic alliances.

Three specific opportunities have so far presented themselves: in health-care marketing and communications; in media buying; and further initiatives are underway in the field of emerging technologies.



The Media Partnership

The Media Partnership was formed over five years ago in response to the rapid changes taking place in the media industry. TMP is currently the largest media buying company in Europe under advertising agency ownership and services clients in most EC countries.

TMP allows the agencies within the WPP Group (J. Walter Thompson Company, Ogilvy & Mather Worldwide and Conquest Europe) and Omnicom Group (BBDO Worldwide and DDB Needham Worldwide) to provide clients with superior media services.

The alliance offers clients the joint benefits of volume negotiations, strategic media planning and research - through the advertising agencies themselves and The Media Partnership Research unit.

The CommonHealth

The CommonHealth is a strategic alliance between WPP Group companies. It was launched in 1992 to offer clients a comprehensive range of specialist skills in healthcare marketing and communication, on a co-ordinated basis, across the major marketplaces of the world.

The CommonHealth enables clients to access the Group's collective expertise in this specialised field drawing on a choice of communications - advertising, public relations, research, education, promotion, direct marketing or other specialist skills - and harnessing them to develop and implement tailored marketing programmes on a national and international scale.

New technology; convergence and interactivity

No one doubts that huge changes are already underway. The telecommunications, entertainment and computer industries are converging. Communications may be moving rapidly from mass transmission to the individually-selected. No business will remain unaffected.

Within Group companies, much experience and intelligent hypothesis already exists. A WPP multimedia Task Force has now been set up: its aim, wherever confidentiality allows, to centralise and disseminate such knowledge for the benefit of clients.

At the same time, the Group is exploring ways to put the new technology to use itself: allowing Group companies to offer a competitive edge through the electronic sharing of experience.

On the following pages you will find a showcase of Group companies, sector by sector. For contact information, please turn to the yellow pages.

WPP Group companies

Strategic marketing services

THE FUTURES GROUP

THE HENLEY CENTRE

Media advertising

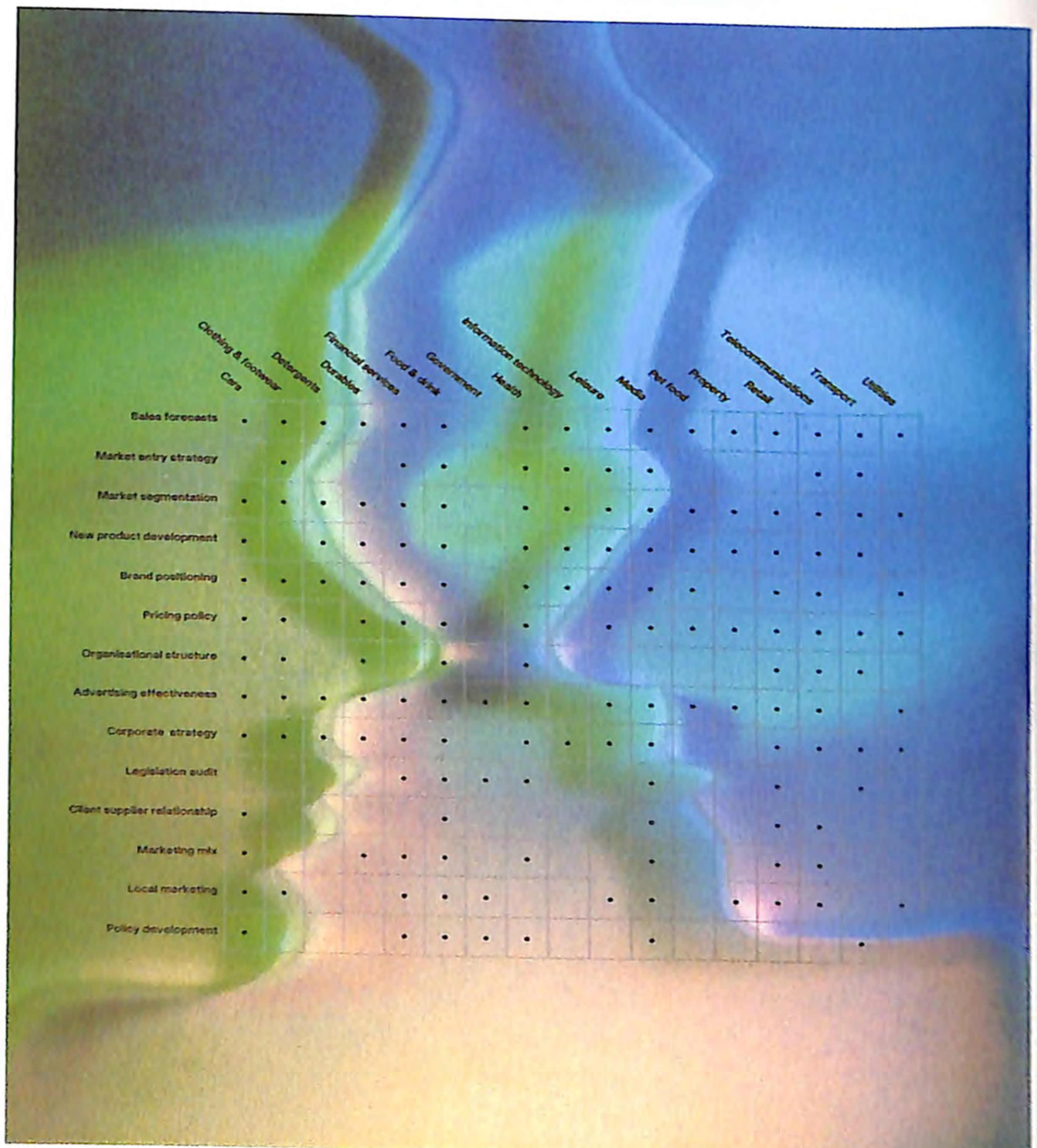
More overleaf

J. Walter Thompson

CONQUEST EUROPE

LANSDOWN | CONQUEST

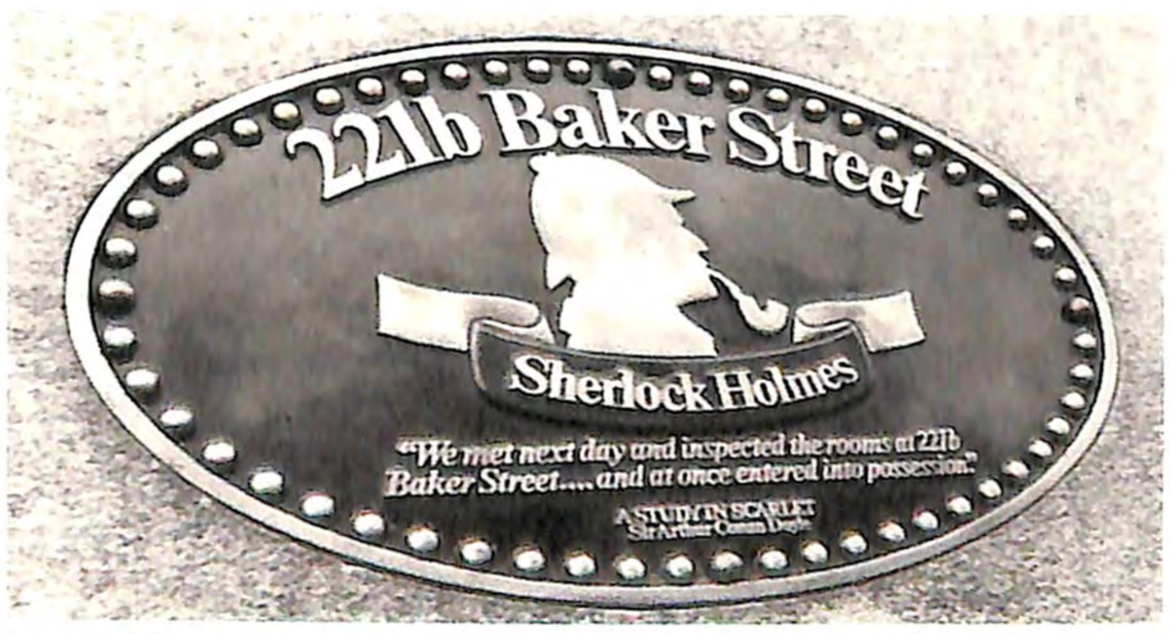
The Futures Group Debating the impact of technological change with The Planning Forum in New York.



The Henley Centre Ideas, analysis, strategies.

For contact information turn to the yellow pages

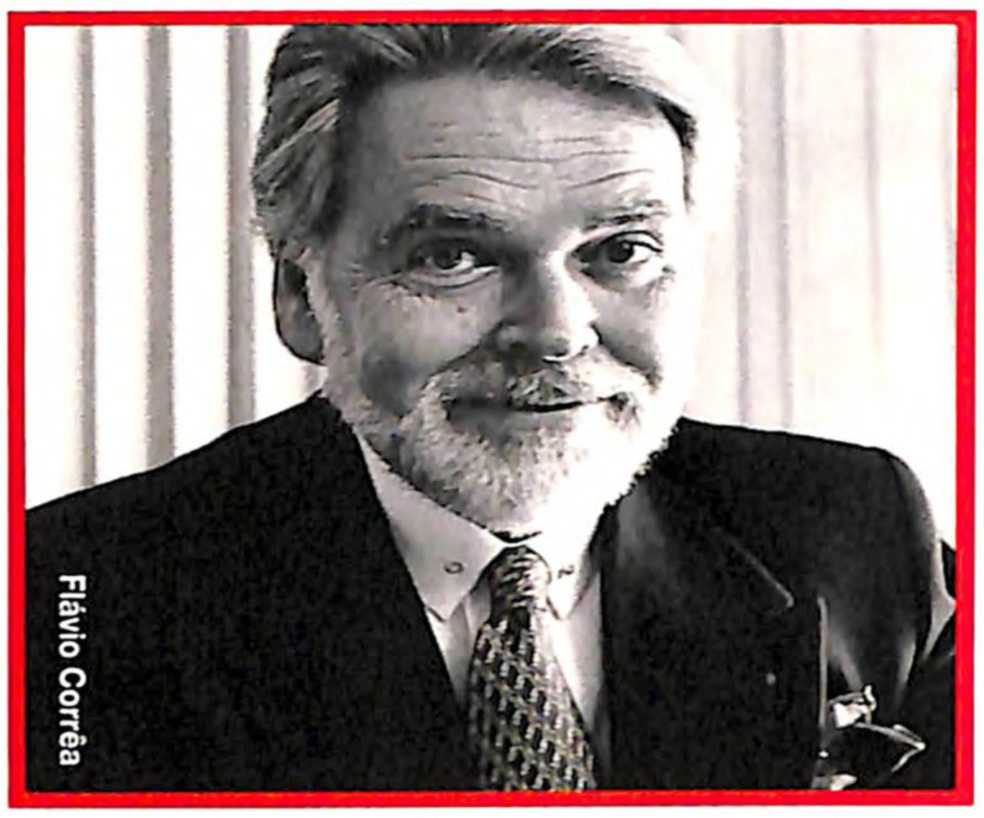
J. Walter Thompson Company Relating to people ... in ads and offices worldwide.



Lansdown Conquest Not just an agency, Watson. Experts!

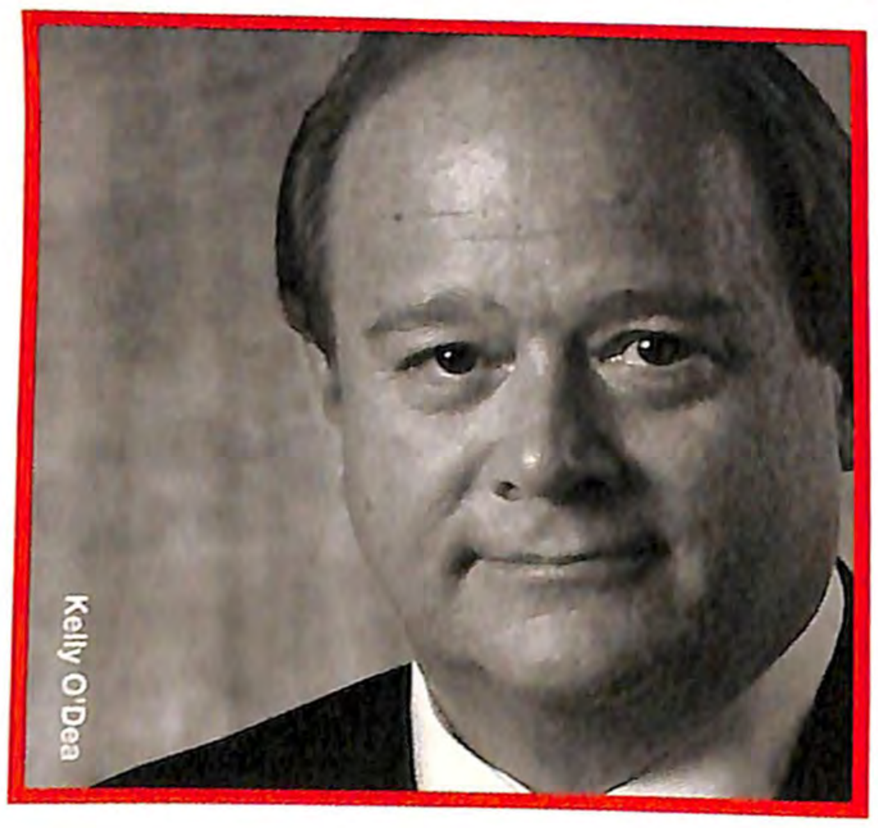
HSR&S Conquest Bright sparks devoting their energies to creating pan-European client solutions.

Ogilvy & Mather Worldwide O&M today is mining its rich heritage and wealth of resources in the passionate pursuit of one powerful, all-encompassing goal: "To be the agency most valued by those who most value brands."



POND'S Seagram PEPSI Ford DHL WORLDWIDE EXPRESS AMERICAN EXPRESS DURACELL HUGGIES

Dove DURACELL HUGGIES AMERICAN EXPRESS GUINNESS POND'S PEPSI Ford



Cole & Weber The big idea at Boeing: getting people together.

WPP Group companies

Media advertising

Ogilvy & Mather
Worldwide

Cole & Weber

Public relations

HILL AND KNOWLTON

Ogilvy Adams & Rinehart

Carl Byoir & Associates, Inc.

Ogilvy Adams & Rinehart Award-winning public relations campaign for Duracell.

Carl Byoir & Associates, Inc
Byoir orchestrates Princess Cruises' "Love Boat" Valentine's Day Celebration, and "largest mass renewal of marriage vows" ceremony ever held at sea.

Hill and Knowlton Making clients the centre of attention.

WPP Group companies

Market research

Research International The RI Group in the fishbowl. Copenhagen Aquarium.

MRB Group is in the vanguard of a revolution; lap-top computers have replaced paper questionnaires in face-to-face interviewing.

Millward Brown International Helping our clients build profitable brands and services.

RESEARCH INTERNATIONAL

MRB GROUP

Millward Brown International

Non-media advertising: *Sales promotion*

Promotional Campaigns Worldwide

einson FREEMAN

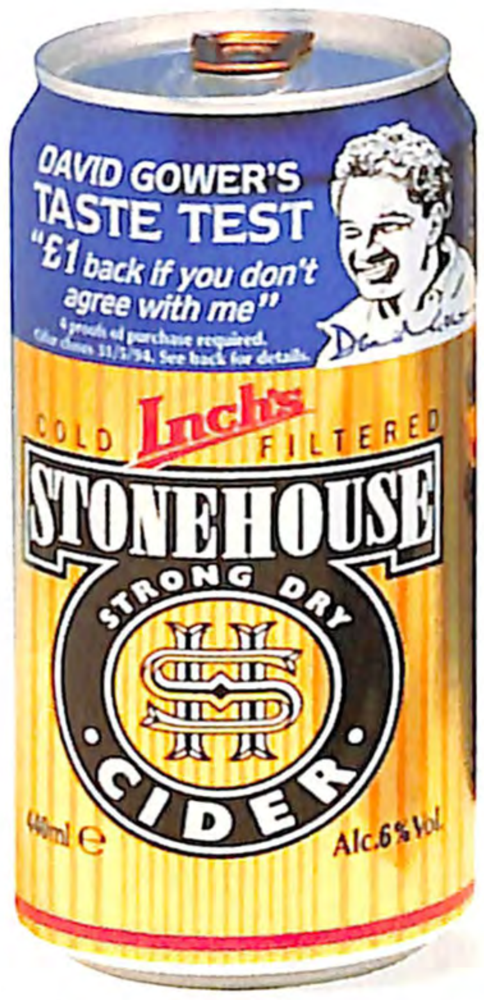
MANDO MARKETING

tmc THE MARKETING CONSULTANCY LIMITED

Non-media advertising: *Audio visual communications*

METRO Video

For contact information turn to the yellow pages



Mando Marketing 849 not out (on pack promotions that is).

Einson Freeman Howwe Gosell coaches the Schering-Plough sales force to success.

Promotional Campaigns Worldwide Millions try the taste of Bovril and give to charity.

MetroVideo On location with BBC Enterprises Showcase.

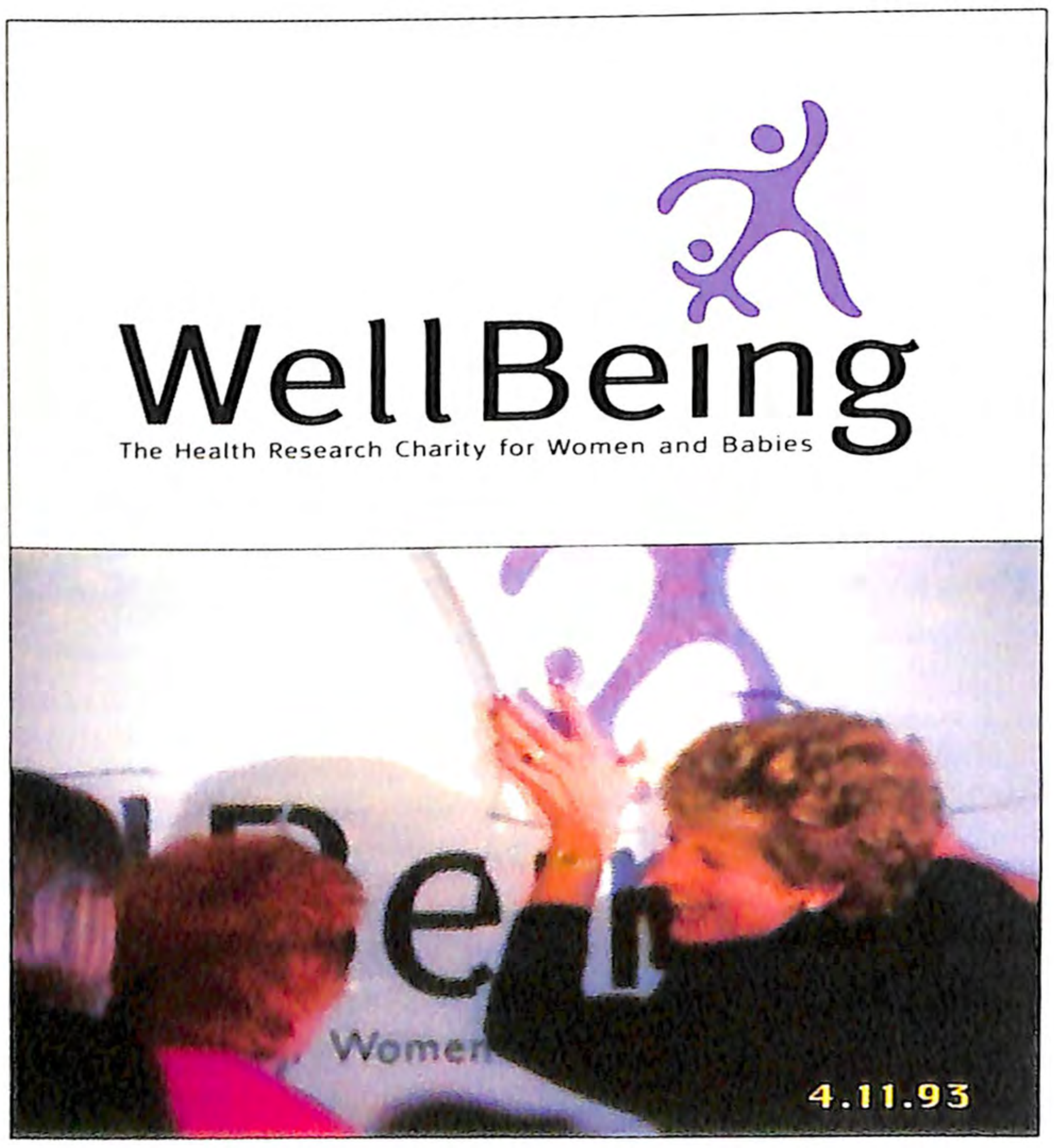
The Marketing Consultancy The sales promotion and marketing services company.

SBG Partners The partners in San Francisco.

Coley Porter Bell Helping companies and brands to go places.

Anspach Grossman Portugal UPS confirms its commitment to global service accessibility with a new design and toll-free number on each vehicle.

Business Design Group/McColl Designers of outstanding office and retail environments.



SampsonTyrrell A new identity for WellBeing, put in place by HRH The Princess of Wales.

WalkerGroup/CNI Retail design etcetera.

Scott Stern Associates The unlimited creativity behind a limited edition.

Oakley Young 4th Dimension
Turning dreams into reality.

WPP Group companies

Non-media advertising:
Identity and design

Anspach Grossman Portugal Inc

Coley Porter Bell

Sampson | Tyrrell

SBG Partners Marketing and Design Consultants

Business Design Group | McColl

WalkerGroup/CNI

Oakley Young 4th Dimension

Scott Stern

VAP

For contact information turn to the yellow pages

WPP Group companies

Specialist communications

More overleaf

BrouillardCommunications

A. Eicoff & Company

EWA

FERGUSON COMMUNICATIONS GROUP

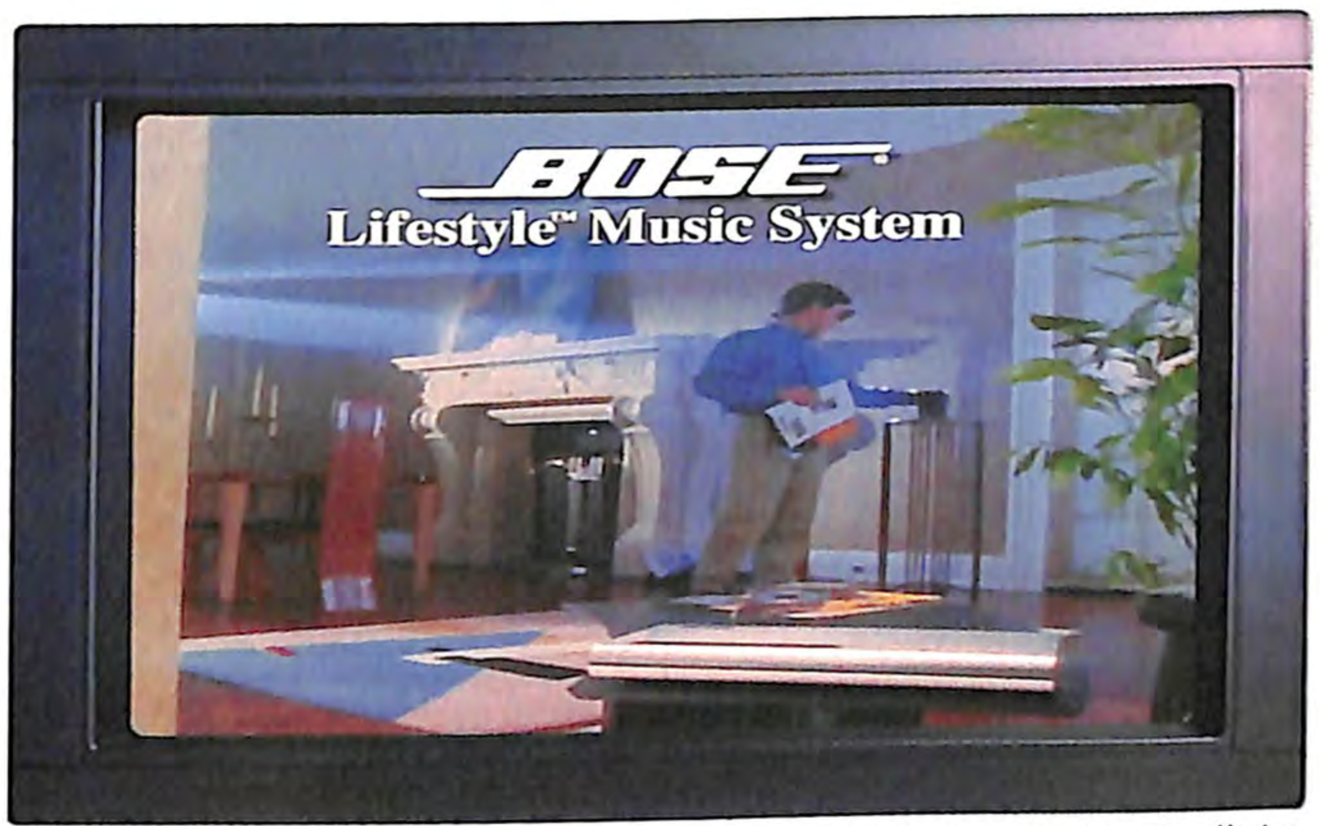
HLS CORP

JWT Direct JWT

MENDOZA, DILLON & ASOCIADOS, INC.

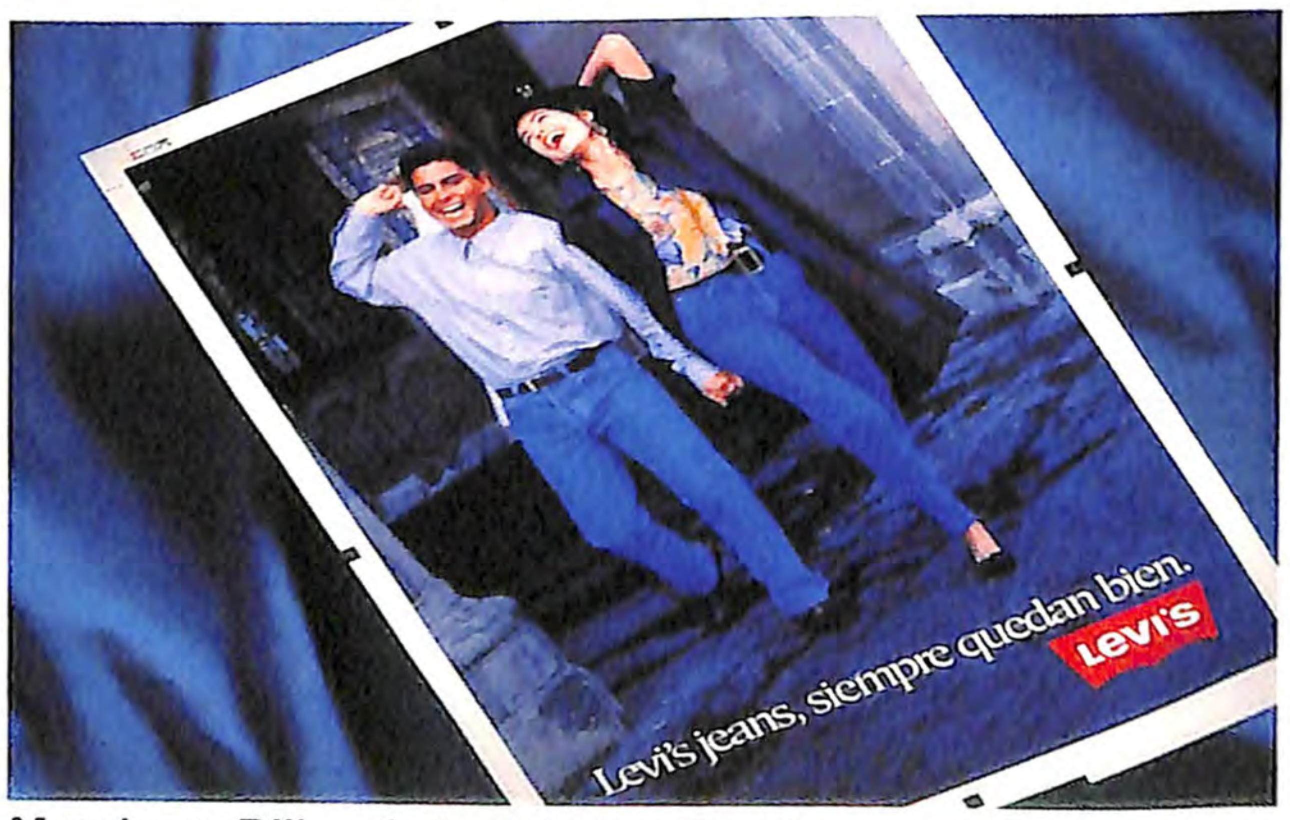
For contact information turn to the yellow pages

Brouillard Communications Making people think about their banking relationship.



A. Eicoff & Company Advertising that produces immediate, measurable results.

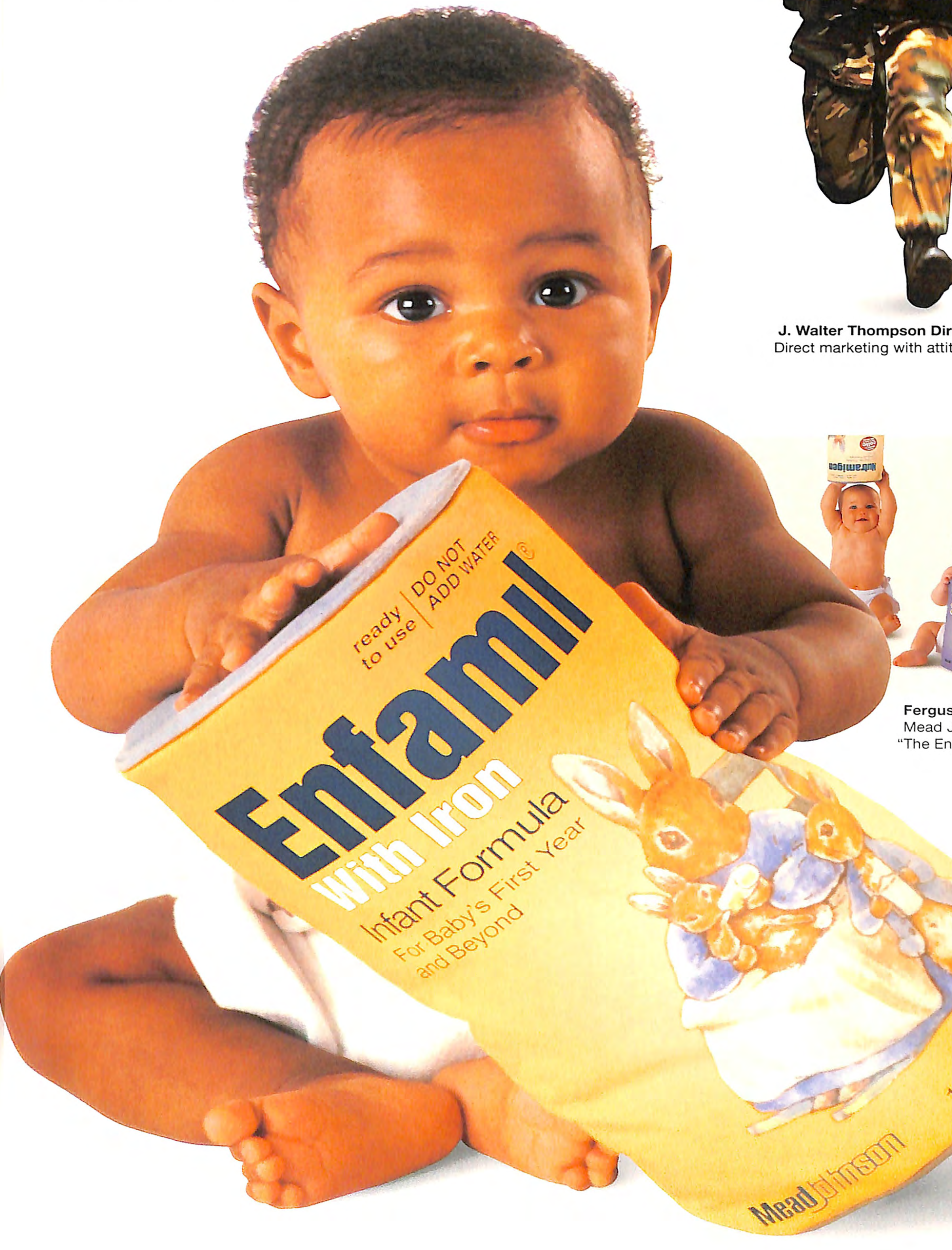
EWA All direct marketing needs fulfilled under one roof.



Mendoza, Dillon & Asociados Developing and implementing Hispanic marketing for many global clients.

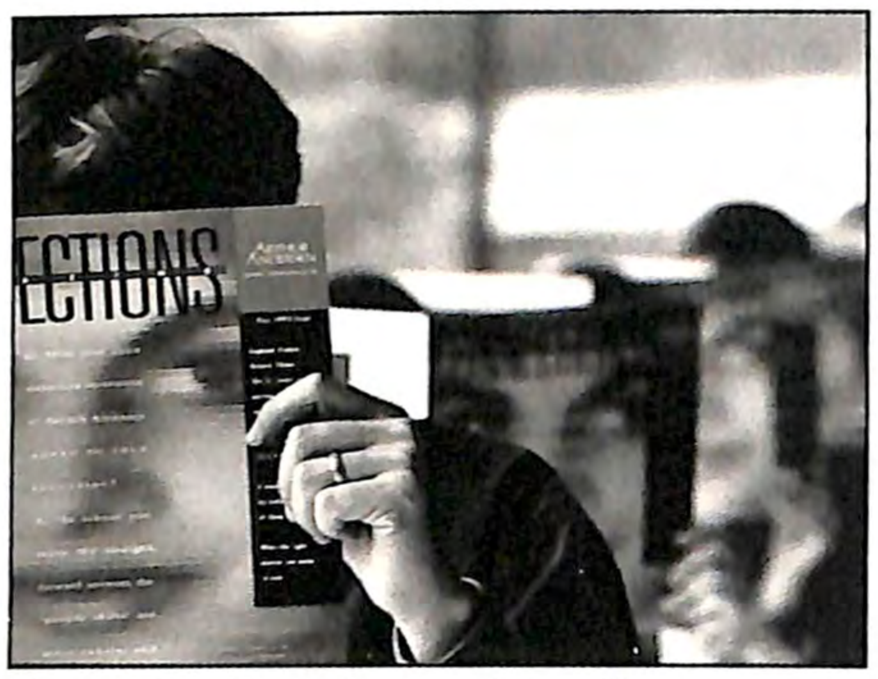
HLS CORP The Fourth Decade of Oral Contraception 25-city videoconference.

J. Walter Thompson Direct
Direct marketing with attitude.

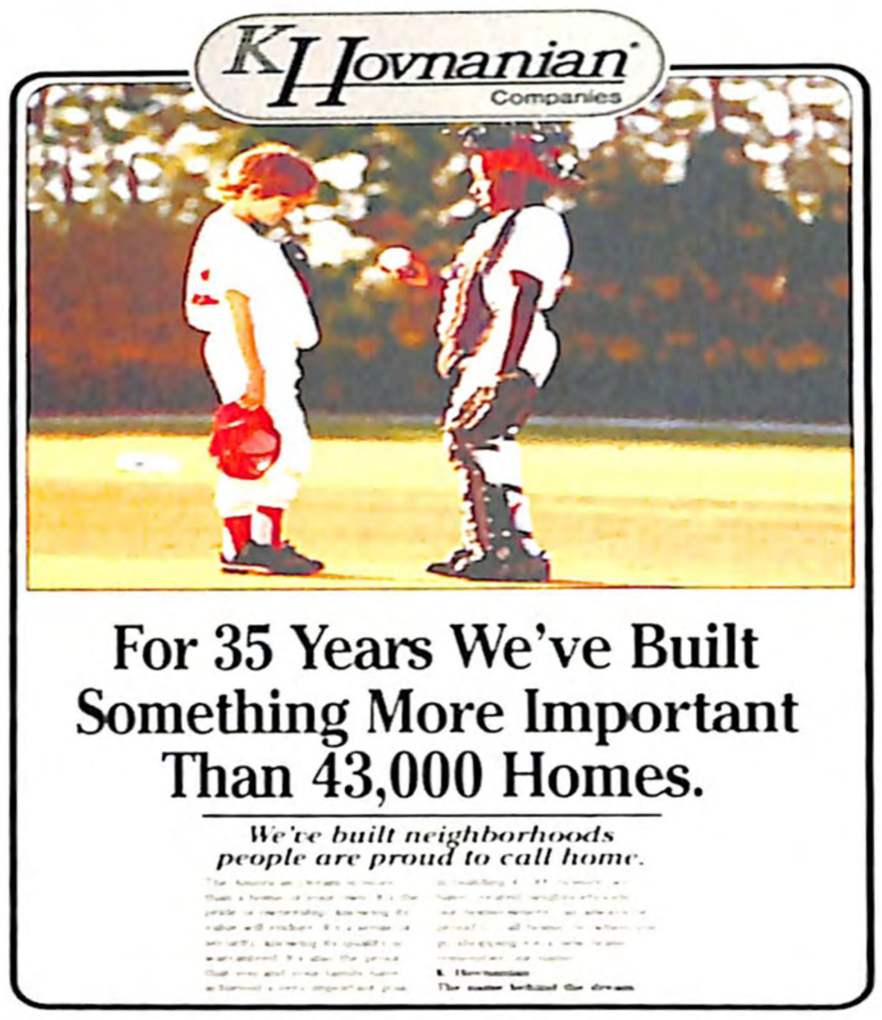


Ferguson Communications Group
Mead Johnson Nutritionals:
"The Enfamil Family of Formulas".

Primary Contact Four IPA Business Awards: including "Gold" for Redland.



Thompson Recruitment Advertising Clients' specialised needs find highly targeted, creative solutions.

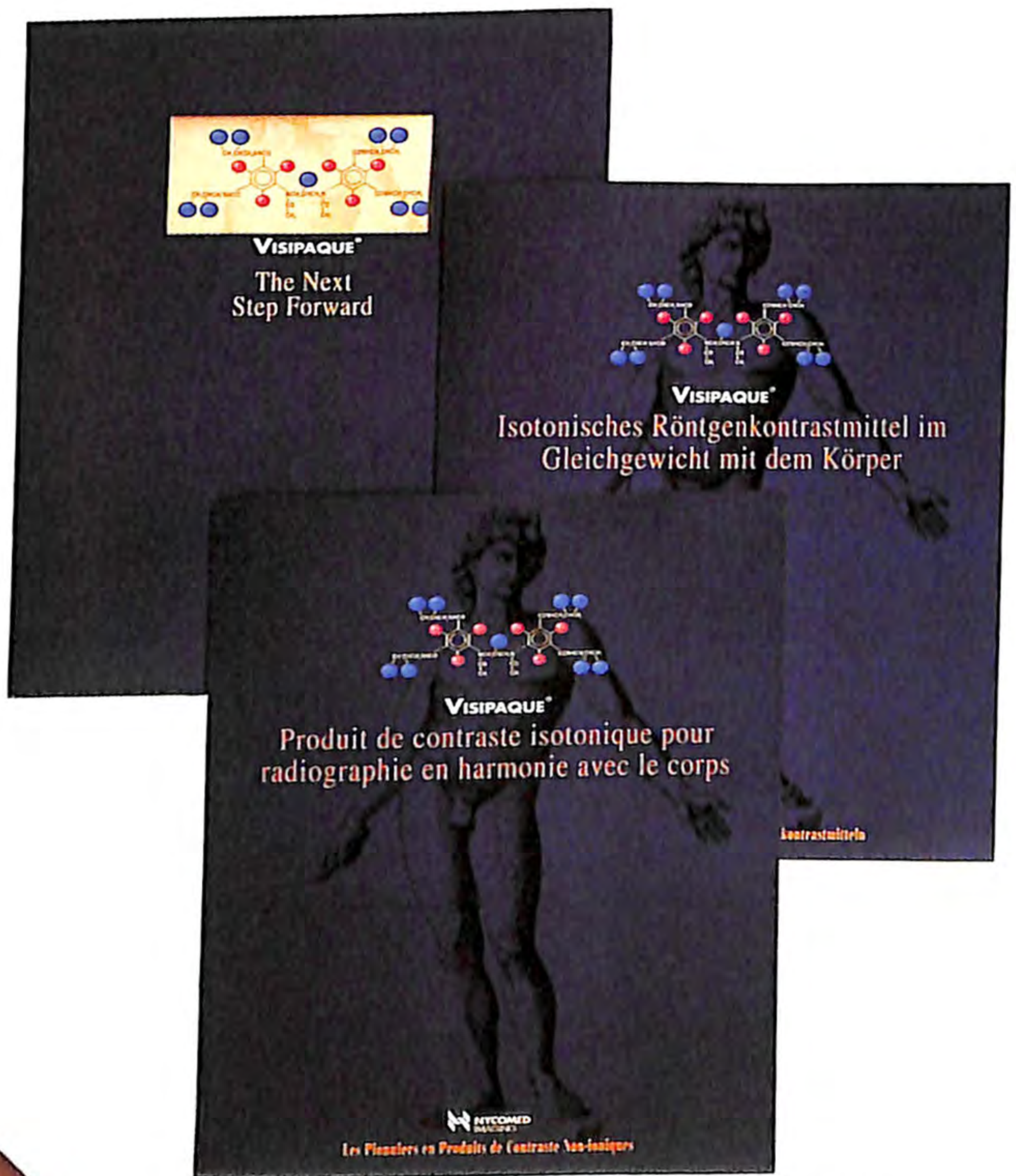


Pace Communications Group Pace's clients also build friendships, families and lives.

The RTC Group Old-fashioned relationships through database technology.

Ogilvy & Mather Direct Elegant high-concept membership package for Microsoft's loyalty programme

The Media Partnership Offering clients superior media services across Europe.



The CommonHealth Award winning pan-European launch of a new x-ray contrast medium for Nycomed Imaging AS, Norway.

WPP Group companies

Specialist communications

Ogilvy & Mather Direct

PACE

Primary Contact
Advertising

The RTC Group

Thompson Recruitment Advertising JWT

WPP Group initiatives

THE MEDIA PARTNERSHIP

The CommonHealth
Global Healthcare Marketing and Communications

For contact information turn to the yellow pages

WPP communications

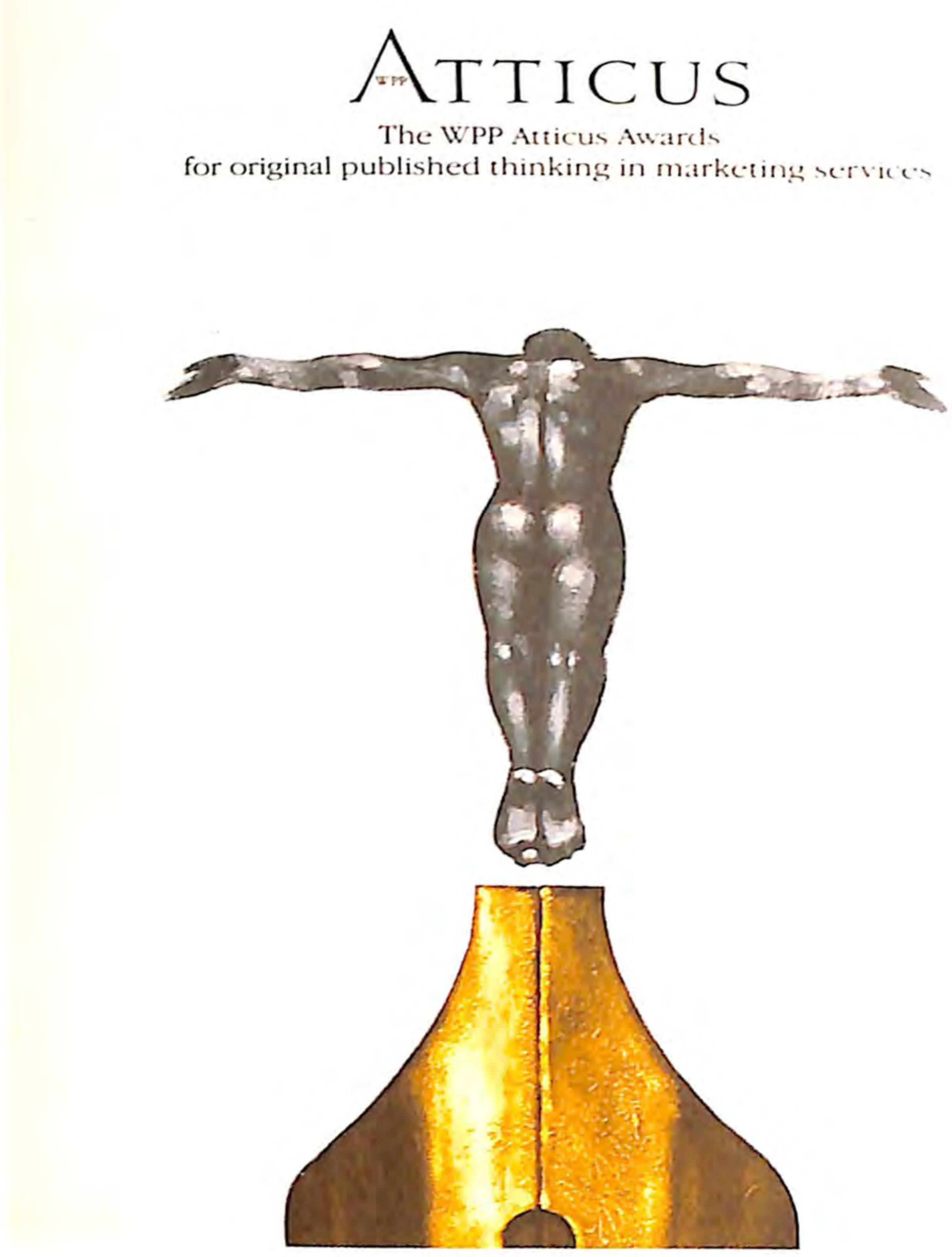
Recognising excellence;
keeping people informed

WPP Atticus Awards

In 1993, WPP launched the Atticus Awards - an internal award scheme open to all employees of all Group companies.

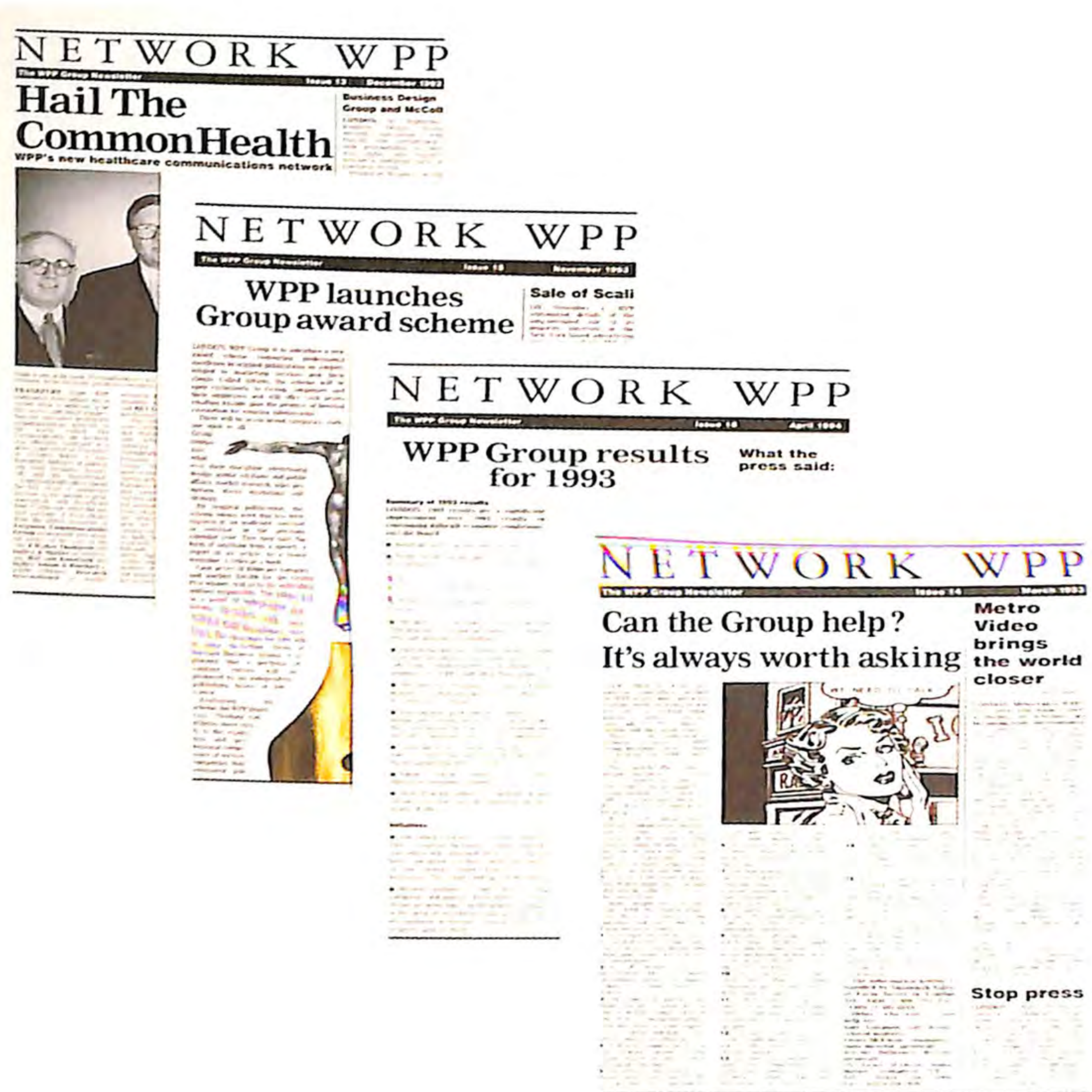
The award scheme honours original publications on subjects of relevance to marketing services companies and their clients.

The judging panel for the 1994 Atticus Awards is being chaired by John H. McArthur, dean of the faculty, Harvard University Graduate School of Business Administration.



Network WPP

To help WPP company employees keep in touch with events, developments and opportunities within the Group, we publish a quarterly newsletter which is distributed worldwide.



WPP Group plc

Company directory

Making contact

Anspach Grossman Portugal

Sector
Non-media advertising: *identity and design*
Activity
Corporate, brand and retail identity

711 Third Avenue
New York
NY 10017
USA
(212) 692 9000
Fax (212) 682 8376

Contacts
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Non-media advertising: *identity and design*
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Non-media advertising: *identity and design*
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Sector
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Sector
WPP Group initiatives
Activity
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Sector
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Sector
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Nigeria
Norway
Philippines
Poland
Portugal
Puerto Rico
Russia
Singapore
South Africa
Sweden
Thailand
Uruguay
USA
Venezuela
Zimbabwe

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Sector
Non-media advertising: *identity and design*
Activity
Packaging and brand identity design

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Sector
Non-media advertising: *identity and design*
Activity
Identity consultancy

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Director, Business Development

Scott Stern Associates

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Non-media advertising: *identity and design*
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Chairman
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Managing Director

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The Wexler Group

Sector
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Activity
Lobbying and government relations

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Business Co-ordination Manager

Note

UK dialling code changes
From 16 April 1995 all UK area codes starting with an 0 will start 01.

For example:
(071) 408 2204 will become (0171) 408 2204
(0533) 750040 will become (01533) 750040


タチカワ銀座ショールーム
ブラインドサッ

Industry issues

The marketing services industry: intensification of competitive pressure

In 1993 several of the competitive forces facing our clients, the major national and multi-national companies, intensified.

For all these companies competition increased in their traditional and mature markets. Inward competition was further stimulated by the signing of free-trade agreements such as NAFTA (which the new chairman and chief executive officer of Hill and Knowlton helped steer through Congress for President Clinton) and GATT.

The growing power of retailers and their control of distribution was heightened by the development of new own store and own label brands at different price points. No longer do such brands represent lower or poorer quality at lower prices. On both sides of the Atlantic major retailers such as A&P, Loblaws and Sainsbury have introduced their own higher quality brands. Store or own label products have now truly become brands in themselves, probably for the first time. For example, Coca-Cola's franchise in Canada has been seriously weakened by own label producer, Cott Corporation of Canada, and the same threat has been made in the United Kingdom in a joint venture between Cott and Sainsbury.

At the same time low population growth and the ease of technology transfer continue to limit volume growth and margin potential. Furthermore, although there were some encouraging signs in the last quarter of 1993 in the United States and Europe, continued recession and the possibility of the 1990s representing a decade of slow growth have made traditional markets more difficult.

In these circumstances it is easy to see why significant investments are being made in new less mature markets with large or rapidly rising populations. Over the last few years we have already seen such opportunities in Argentina, Chile, Indonesia, Italy, Malaysia, Mexico, Spain, Taiwan and Thailand. Now similar opportunities are being developed in China with a population of 1.2 billion; India with a population of over 880 million; and Central and Eastern Europe with a population of over 400 million. Other markets such as Colombia will follow.

No wonder that chairmen, chief executive officers and senior executives of United States and European companies return from long distance and time-intensive trips to Asia Pacific and Latin America feeling refreshed and revitalised by the opportunities they see.

The recent and welcome political changes in South Africa, with its population of 40 million, may herald the opening up of another new market - not only there but as a gateway to Africa as a whole with 600 million people.

Similarly the signing of an agreement between Israel and the Palestinian Liberation Organisation could initiate not so much the opening up of the Israeli market with its relatively small (though highly-educated) population of 5 million people, but the use of Israel as an entry point to the Middle Eastern market of 150 million people.

Take Vietnam, for example, with almost 70 million people. Recent constitutional changes encourage capitalist development, so Vietnam now offers a consuming population 50% bigger than either Spain or Thailand, both of which have recently been amongst the world's fastest growing marketing services markets.

Client strategies

Most clients have set profit improvement goals or earnings per share growth targets of approximately 5%-10% per annum, targets which are considerably greater than the GNP growth in mature markets. To achieve these objectives clients have three potential strategies.

First, they can concentrate on organic revenue growth by improving market share or opening up new markets both domestically and internationally. By and large it is becoming increasingly difficult to differentiate products or services. Even in what appear to be complex markets, such as computers or automobiles, product similarities are increasingly evident, as geographical and technological barriers to entry have been stripped away.

However, even in relatively mature categories such as detergent, manufacturers are still seeking to differentiate their products through technological improvement and innovation. For example, Lever is currently introducing a new super concentrate detergent which has enhanced cleaning power through a manganese-based accelerator. Clearly manufacturers will have to ensure that they continue to explore all means of differentiating their products technologically.

Other methods of discriminating between products and services will become ever more important. In the automobile markets, for example, service will become an increasingly significant discriminator. For automobile manufacturers the distinction between sales and after-sales service will become blurred and service at the dealership level increasingly important. Maintaining a one-to-one relationship with the car purchaser will be essential. This could well result in car manufacturers investing in their dealership networks so as to exercise greater control over both after sales service and the relationship with the customer.

The second strategy is to reduce costs and become the low cost producer. Most client companies have eliminated management layers, out-sourced various activities and are co-ordinating activities across geographical regions.

Some of this cost cutting has been arbitrary. Decisions have been taken to reduce headcounts on a formula basis. Other approaches have been more studied, involving a close examination of how costs can be reduced by improving the way that products or services can be manufactured or distributed: so called process or business re-engineering. This has often resulted in genuine improvements in productivity: capital and technological investments have led to a reduction in both waste and labour content.

The growth of common markets has stimulated these changes. Economies of scale in production and distribution are continually being exploited. When a market such as the United States with 250 million people can be efficiently served by only three plants, it seems increasingly anachronistic that Europe, with 350 million people, should require 19 or 20.

However, major reductions in costs are most easily achieved initially and thereafter become primarily a matter of care and maintenance. Furthermore, there is of course a finite limit to the reduction of costs beyond which performance quality and profitability become seriously affected.

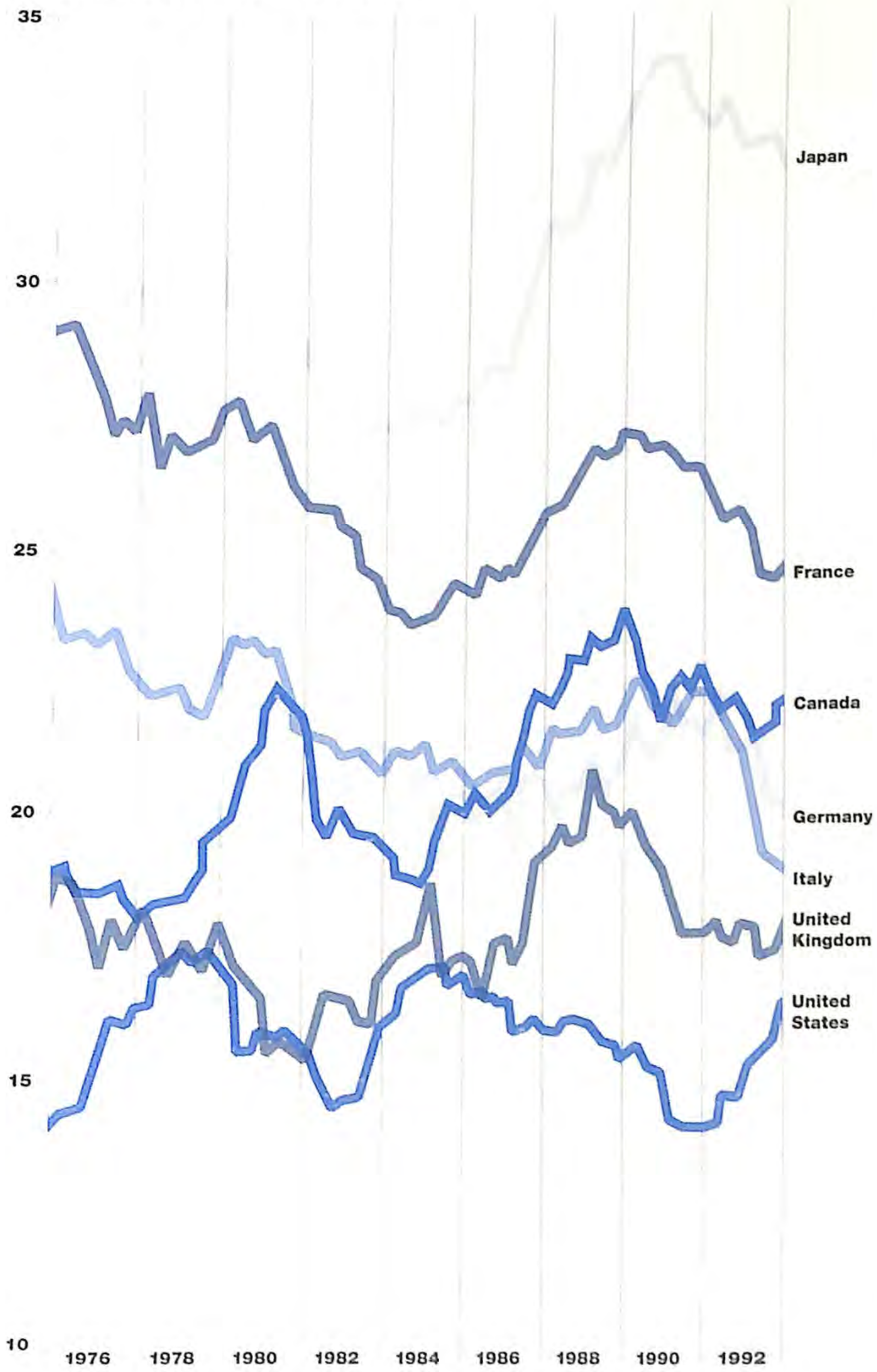
Finally, growth can be achieved by acquisition - either to increase market share or expand into new product or geographical areas. Despite the recession the costs of acquisition remain high. Packaged goods' companies in particular still command ratings in excess of 20 times earnings and premia to sales, and the level of stock markets remains high in anticipation of any economic recovery. In 1993 and early 1994 there appeared to be an increase in merger and acquisition activity perhaps reflecting the increasing frustration level of chairmen and chief executives who had been concentrating on cost containment for the last three years.

Selected major consumer goods transactions over US $500 million: 1990 to 1993

Date	Acquiror	Target	Activity	Price $bn	Multiple sales	Multiple earnings
93	Philip Morris Companies Inc	Freia Marabou A/S	Confectionery	1.49	1.5	26
93	Campbell Soup Company	Arnotts Ltd	Biscuits	0.68	2.0	13
93	Royal Foods Ltd International Ltd	Del Monte Foods	Canned fruit & juices	0.56	n/a	15
92	Johnson & Son Inc, SC	Drackett Company	Household products	1.15	1.9	n/a
92	Bacardi & Company	Martini & Rossi	Wines & spirits	1.50	1.0	n/a
92	Nestlé SA	Source-Perrier SA	Mineral water & food	2.80	2.0	44
92	Colgate-Palmolive Company	Mennen Company	Personal care products	0.67	1.2	n/a
92	Henkel KGAA	Nobel Industrier AB	Chemical household products	0.61	2.4	n/a
91	Procter & Gamble Company	Max Factor & Co	Cosmetics	1.14	1.9	n/a
91	Guinness plc	Cruz Del Campo	Brewing	1.05	2.3	13
90	LVMH Moët Henessy Louis Vuitton SA	Pommery/Lanson	Champagne	0.62	n/a	n/a
90	Booker plc	Fitch Lovell plc	Food	0.52	0.5	n/a
90	Philip Morris Companies Inc	Jacobs Suchard	Chocolate & coffee	3.80	1.0	20
90	Conagra Inc	Beatrice Companies	Food & consumer products	1.34	0.3	n/a
90	Reckitt & Colman	Boyle-Midway	Household products	1.25	1.9	14

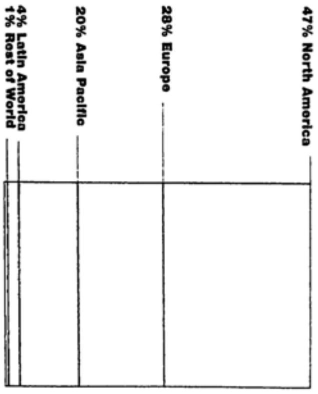
Source: AMDATA, Financial Times, company accounts

Investment as a percentage of GDP



Source: Datastream

World advertising markets 1993



Source: Zenith, WPP estimates

Worldwide marketing services expenditure 1993 *US$ billion*

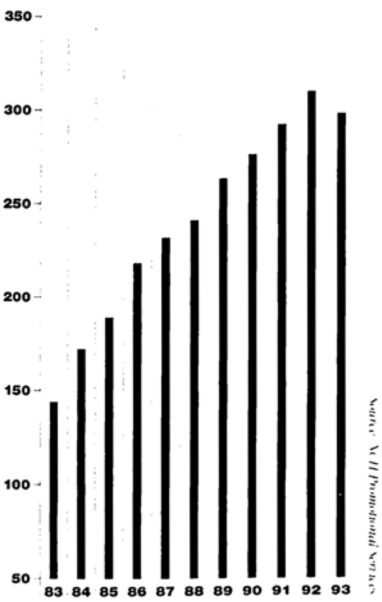
	USA	UK	France	Germany	Japan	Rest of World	Total
Media advertising	141.6	14.4	9 0	17 9	29 2	78 5	295 4
Public relations	13.1	2 1	0 7	0 9	3 5	1 9	22 3
Market research	2.9	1 1	0 6	0 8	0 7	2 2	8 5
Non-media advertising:							
Graphics & design	16.8	4.9	1 5	1 9	7 8	2 8	35 6
Incentive & motivation	2.8	0.7	0 3	0 5	1 0	1 6	6 9
Sales promotion	160.5	17.4	9 7	11 4	16 8	69 9	285 6
Audio visual communications	3.6	0.7	0.5	0.7	0 9	1 4	7 8
Specialist communications:							
Real estate	1.1	0.2	0 1	0.3	1 4	0 5	3 7
Financial communications	1.5	0.5	0.1	0 3	1 2	0 2	3 8
Ethnic	1.7	0.2	0.1	0 1	0 1	0 3	2 5
Public affairs	6.0	1.5	0.5	0 6	1 5	0 6	10 7
Direct mail	27.5	5.1	2 3	3.2	5 0	11 8	54 8
Recruitment	4.2	0.5	0.2	0.7	1 0	1 6	8 1
Healthcare	4.7	0.8	0.5	0.7	1 4	1 2	9 2
Total	**388.0**	**50.1**	**26.0**	**39.9**	**71.6**	**174.6**	**754.9**

Key indicators

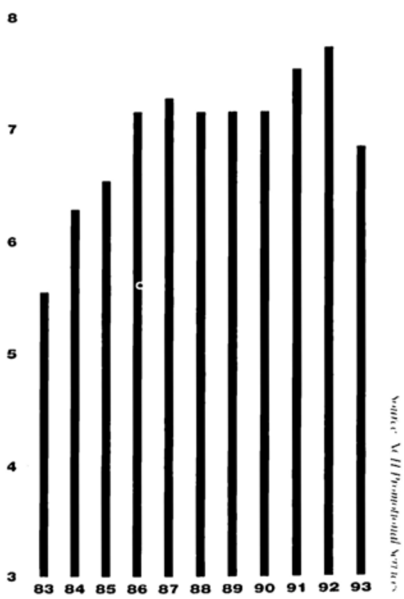
	92	93	94	95
United States				
Nominal GDP growth	5.6	6.0	6.5	6.1
Real GDP growth	2.6	3.0	3.6	2.8
Consumer expenditure	2.6	3.3	3.2	2.6
Corporate profitability	10.2	13.1	11.9	7.2
United Kingdom				
Nominal GDP growth	3.3	3.6	5.3	6.2
Real GDP growth	(0.4)	2.0	2.6	2.6
Consumer expenditure	0.0	2.5	2.3	2.2
Corporate profitability	0.3	14.3	13.2	10.5
Continental Europe				
Nominal GDP growth:				
Germany	5.6	2.2	3.4	3.9
France	3.8	1.4	3.2	4.6
Spain	6.7	3.7	5.2	8.2
Latin America				
Real GDP growth:				
Argentina	8.7	6.0	5.0	n/a
Chile	10.3	6.0	4.5	8.0
Mexico	2.6	0.4	2.8	4.0
Colombia	3.5	5.2	4.6	4.0
Asia Pacific				
Real GDP growth:				
Australia	1.7	3.4	3.9	3.9
China	12.8	13.0	9.0	n/a
Indonesia	6.3	6.5	6.8	7.0
Japan	1.3	0.0	0.3	1.8
Malaysia	8.5	8.4	7.9	7.8
South Korea	4.8	5.1	6.5	6.8
Taiwan	6.6	6.0	6.4	6.4
Thailand	7.4	7.6	8.1	8.1

Source: Consensus Forecasts, EIU

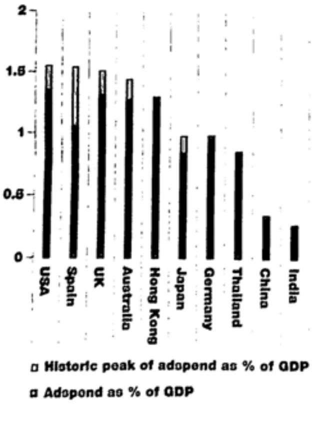
Coupon distribution in the US *billions*



Coupon redemption in the US *billions*



Growth potential of less mature markets *1993 advertising expenditure as % of GDP*

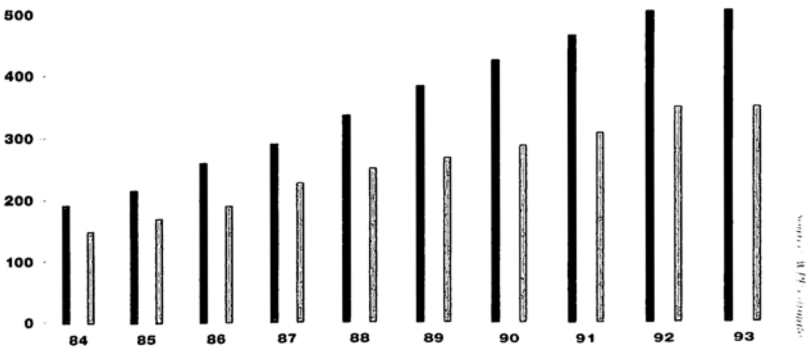


Source: Zenith, WPP estimates

▫ Historic peak of adspend as % of GDP

▫ Adspend as % of GDP

Faster growth in non-media advertising *US$ billion*



▪ Non-media advertising ▫ Media advertising

The marketing services industry: size, segments and growth 1993-1996

Worldwide marketing services expenditure reached $755 billion in 1993 - up 4% on the previous year in nominal terms, flat in real terms.

The two most important market segments were between them worth over $580 billion. Media advertising accounted for almost 40% of the total - up 4% on 1993; and sales promotion for almost 38% - up over 5%. Other shares included: direct mail 7% - up over 6%; graphics and design almost 5%; and public relations and public affairs over 4%.

Short-term trends in worldwide marketing services

Given the outlook for the two key determinants of marketing services expenditure - consumer expenditure and corporate profitability - 1994 will probably see a similar increase over 1993: 4% in nominal terms and 1%-2% in real terms. Stronger growth will occur in both Latin America and Asia Pacific.

However, those of a sceptical disposition believe that 1995 and 1996 will see a marked increase in marketing services expenditure as governments in the United States and United Kingdom (accounting for 58% of worldwide spending) seek re-election by stimulating their economies, reducing unemployment and stoking inflation. This seems particularly likely as little investment has been made in capacity in the major markets during the recession.

Two significant long-term trends in the marketing services industry

1993 and the beginning of 1994 saw a continuation of two trends that have dominated the industry for the last decade.

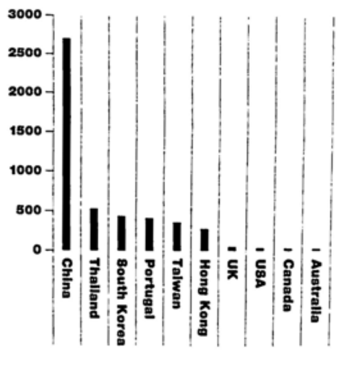
First, non-media advertising has grown more rapidly than media advertising. In the 1970s and 1980s as media inflation outstripped general price inflation, and network television maintained a stranglehold over the supply of television time and advertising agencies were paid commission on ever-inflating billings, clients began to question the value and effectiveness of media advertising and in particular television advertising. As a result, clients have increasingly experimented with alternative means of communication such as trade and consumer promotion, public relations, identity and design, audio-visual and specialist communication.

Secondly, marketing services expenditure outside the United States has grown at a faster rate than inside. Clients have found it increasingly difficult not only to expand their traditional markets but even to defend their established positions. Improved communications and the growing ease of technology transfer continue to curtail product life-cycles while free-trade makes life more competitive. So in their search for growth, clients are turning to new markets.

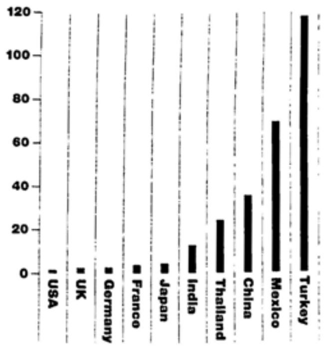
Over the last five to 10 years, Korea, Taiwan, Hong Kong, Singapore, Thailand, Indonesia and Malaysia in Asia Pacific and Mexico, Argentina, Chile and Venezuela in Latin America have become important targets. More recently India, Vietnam, China and Colombia attracted significant attention as well as Central and Eastern Europe.

However, Asia Pacific and Latin America are likely to gain more attention in the short to medium term. With hard-working and energetic people and governments committed to capitalist developments and free trade, the immediate prospects are better than in Central and Eastern Europe where a weak infrastructure and unstable governments have resulted in most client activity being confined to the Czech Republic and Hungary with relatively small populations of 10-12 million and to Poland with a population of 50 million.

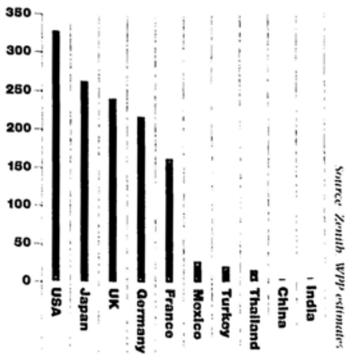
Growth in advertising expenditure 1982 to 1992 *percentage*



Growth in adspend per capita 1988 to 1992 *% compound*



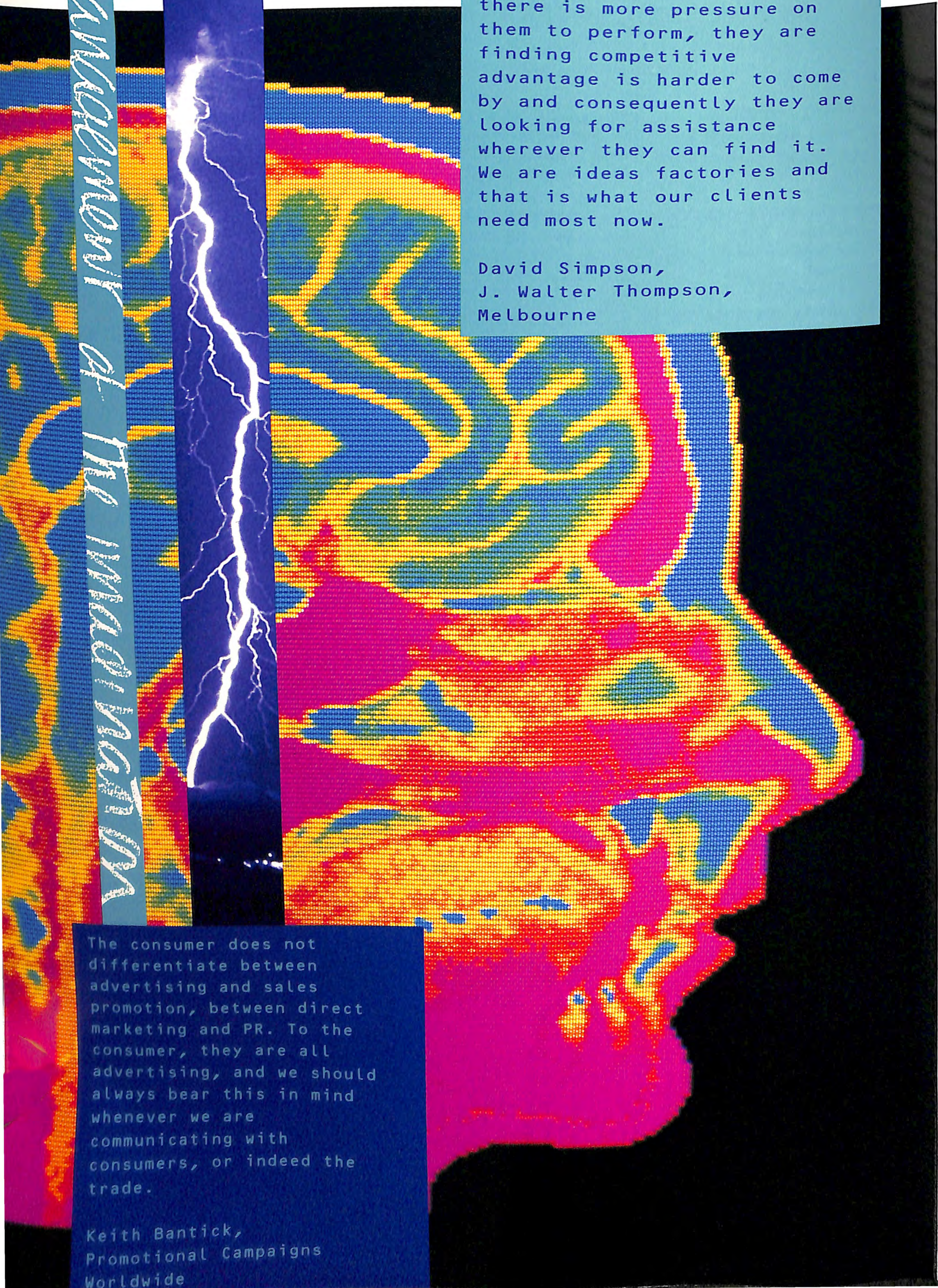
Adspend per capita 1992 *US$*



Management of the Imagination

In the nineties, clients have slashed their numbers, there is more pressure on them to perform, they are finding competitive advantage is harder to come by and consequently they are looking for assistance wherever they can find it. We are ideas factories and that is what our clients need most now.

David Simpson,
J. Walter Thompson,
Melbourne



The consumer does not differentiate between advertising and sales promotion, between direct marketing and PR. To the consumer, they are all advertising, and we should always bear this in mind whenever we are communicating with consumers, or indeed the trade.

Keith Bantick,
Promotional Campaigns
Worldwide

The marketing services industry: threats and opportunities

Big or little: McCann or CAA

Considerable interest was caused by Coca-Cola's decision in 1992 to move part of its advertising account to Creative Artists Agency (CAA), a talent agency based in Hollywood. Whilst there was initial discounting of this move by many marketing service company leaders the relationship has continued, and the second wave of advertising that has been produced seems to be more co-ordinated and effective.

In a similar move in 1993, Sony chose its own entertainment subsidiary, Sony Pictures, to produce its advertising over Leo Burnett Co., one of the most admired full service multi-national agencies.

In some sense, these two situations are no different from the unfolding competitive situations in other industries. Who would have forecast that Swatch and Mercedes-Benz would have joined forces in the automobile industry?

Clearly, as a result of intense competitive pressure clients are prepared to experiment with new sources of strategic thinking and creative expertise if they feel they are not receiving value for money. There is no doubt that major management consultancies such as McKinsey, Bain, Boston Consulting Group and The Monitor Company are encroaching on the strategic areas traditionally covered by agencies. The advertising agencies' response to this has been to create smaller units to service client business through spin-offs or start-ups. But this approach may be flawed.

Often these units have been built around individuals who did not fit within the full service agency framework, or around clients who have become increasingly dissatisfied. As a result they not only become isolated from valuable resources within the mother agency but also cause further disintegration and unbundling.

The better answer may well be a two-pronged approach. First, it will be necessary to ensure that the full-service agency has access to the resources of industries such as film and entertainment. An agency may never have all the finest writers, directors, producers, cameramen etc on its payroll but there is no reason why it should not have access to them.

Secondly, it will be essential to treat the low-cost producer strategy espoused by clients as an opportunity and not a threat. The main value to clients of marketing services companies may continue to be the creation and promotion of brand differences - but the low-cost producer strategy offers real opportunities as well.

Travel and communications developments - including e-mail, groupware and video conferencing - continue to allow clients to simplify their organisational structures and improve their processes.

All changes in the marketing services industry are client driven, and in turn demand changes by agencies. Although marketing services companies are as creative as possible in the execution of client strategies, they have been less inventive when designing their own organisations. In the case of advertising agencies, their organisational structures have not changed for 30 or more years. With few exceptions, they are still functional smokestacks that develop strategy and execute creative work.

Agencies are still wedded to the management of function rather than process. As both national and multi-national clients move to co-ordinate their activities and simplify their organisation by reducing layers, marketing services companies will have to respond in a similar way. Instead of being organised purely on a geographic or departmental basis - account planning, creative, production, finance etc - they will be organised on a client basis.

Traditional promotion inside multi-national agencies has been on a geographic basis. A successful executive in London would be promoted to run Europe. Now such promotions are made on a client basis with the executive being given responsibility for a client or clients on a worldwide basis. Increasing resources are being invested in worldwide client responsibilities and marketing services companies income statements are being split on a client, functional and geographic basis.

This will create a number of organisational problems for marketing services companies, just as it has done for clients. Agency personnel will have to become used to having three bosses instead of one. They will have to think three-dimensionally - by client, by function and by geography. Geographic fiefdoms and baronies will be less effective and co-operative structures more important. This mirrors the changes taking place by clients and the reduction in power of the country manager. Recent client re-organisations on a worldwide scale as well as regional co-ordinations will accelerate these trends.

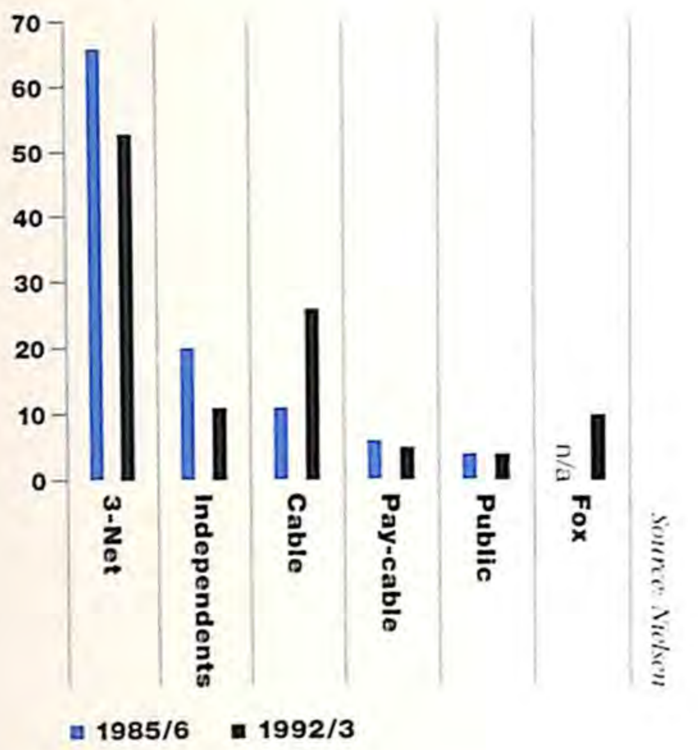
As a result, marketing services companies will have to behave differently, particularly those that are multi-national and have operated large bureaucracies. To borrow from Professor Rosabeth Kanter at the Harvard University Graduate School of Business Administration, they will have to be fast, focused, friendly, flexible and fit.

Recruitment, training and career development

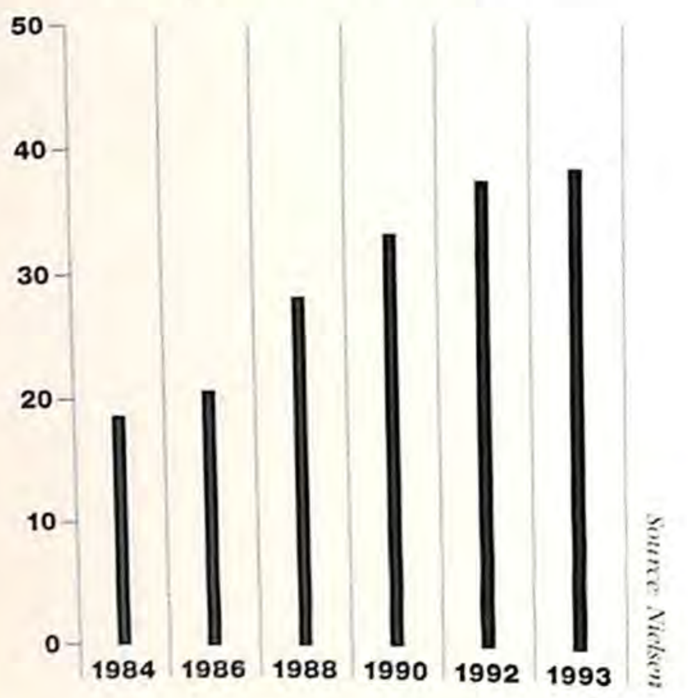
Considerable concern has been expressed about the lack of young talent entering the marketing services industry. This is a problem and is likely to continue to be one unless changes are made to recruitment procedures. There is no doubt that the major management consultancies and investment banks (mostly United States-based) dominate recruitment at the graduate and post-graduate levels. As a result the best and the brightest are being siphoned off not only from the marketing services industry but from manufacturing too.

If the marketing services industry follows clients in managing process rather than function this will offer a distinctive opportunity for recruitment. Young people will be offered the opportunity of learning a multi-disciplinary approach across a range of marketing services - strategic marketing services, advertising, public relations, market research, non-media advertising and specialist communications. As a result clients will be advised by people who have a broad understanding of marketing and not by those who believe in the primacy of one discipline over another.

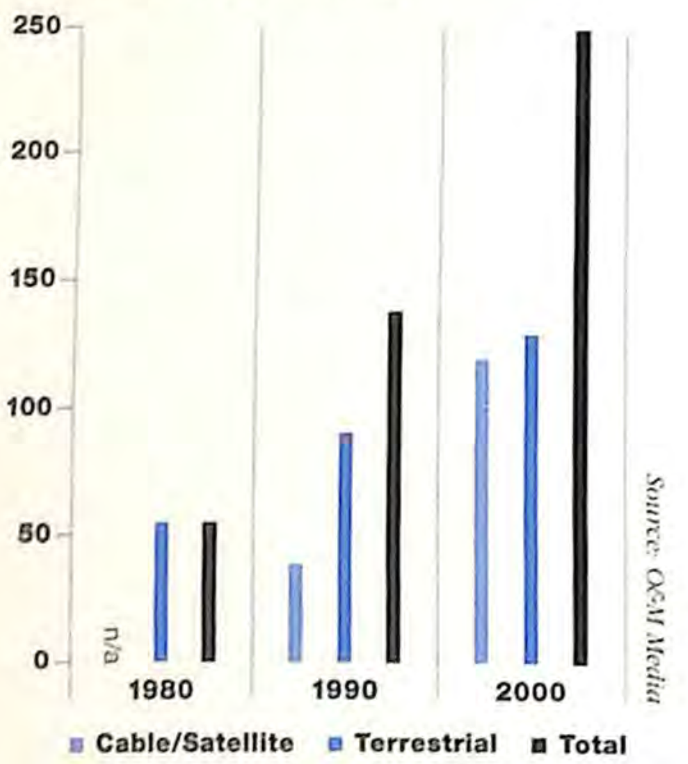
Share of viewing in US homes
percentage



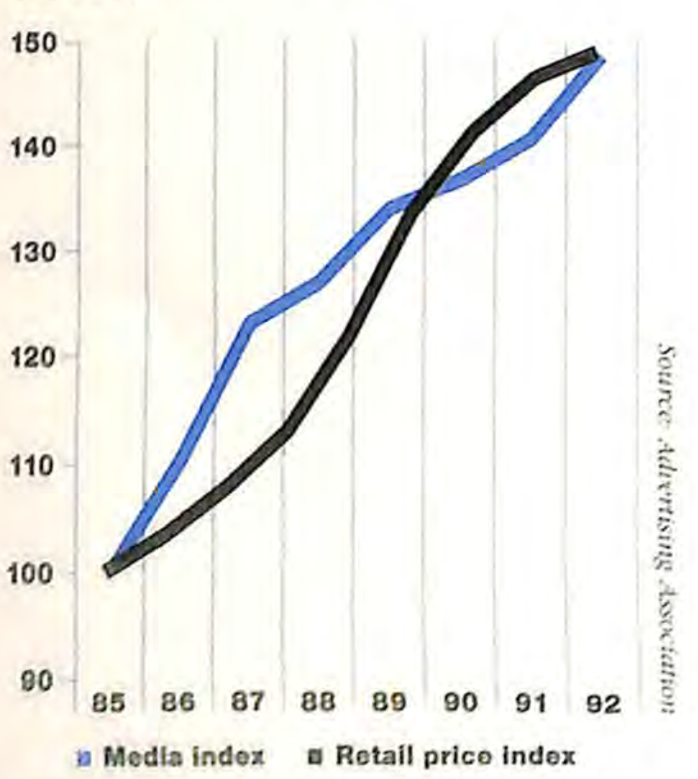
Average number of channels receivable per US TV household



Growth in number of European TV channels



UK media and retail price inflation
1985 = 100



Network television, media inflation, interactivity and convergence

Network television dominated the 1970s and 1980s. With prime-time viewing audiences in the United States over 90%, network television was the major way of reaching the largest possible audience in the shortest possible time at the lowest cost per thousand.

Since the latter part of the 1980s and in the 1990s, the dominance of the networks has been challenged: in the United States, for example, by the growth of cable and alternative networks (such as Fox) and satellite. The average number of television channels received by the average US household has more than doubled over the last 10 years.

In addition to an increase in the supply of television media channels there has been a parallel expansion in the supply of other forms of media such as radio, magazines and consumer publications. Media price inflation has reduced both as a result of increased supply of media alternatives and the recent recession.

With the multiplication of media and the reduction in the rate of price increases there has been an increase in the concentration of media ownership. For example, the top four UK television companies currently control over 80% of net advertising revenue as compared to 50% in 1990.

This, together with a slight improvement in the economy, may go some way to explaining why television media prices in the UK over the last year may have increased by 10%-20% following the consolidation in the UK television industry. Some sales points now account for almost 40% of airtime volume. The competitive pressure on terrestrial television is, however, set to intensify further.

The last few years have seen an explosion in the development of alliances between companies in the telecommunications, consumer electronic, computer, and media and entertainment industries. Despite some recent slowing down as a result of the cancellation of the Bell Atlantic/TCI merger, delay in the implementation of the Time Warner multi-channel experiment and the pronouncement of Judge Green, there is no doubt that interested parties are scrambling to invest in both the consequent hardware and software systems.

It is also clear that very few people are certain of the precise direction developments will take. Many wish to be making investments or to be seen to be in the midst of these developments.

What is clear is that the ability to deliver tailored programming on a selective or one-to-one basis with the facility for the consumer to respond and carry on a conversation with the manufacturer or retailer will radically alter the nature of marketing communication.

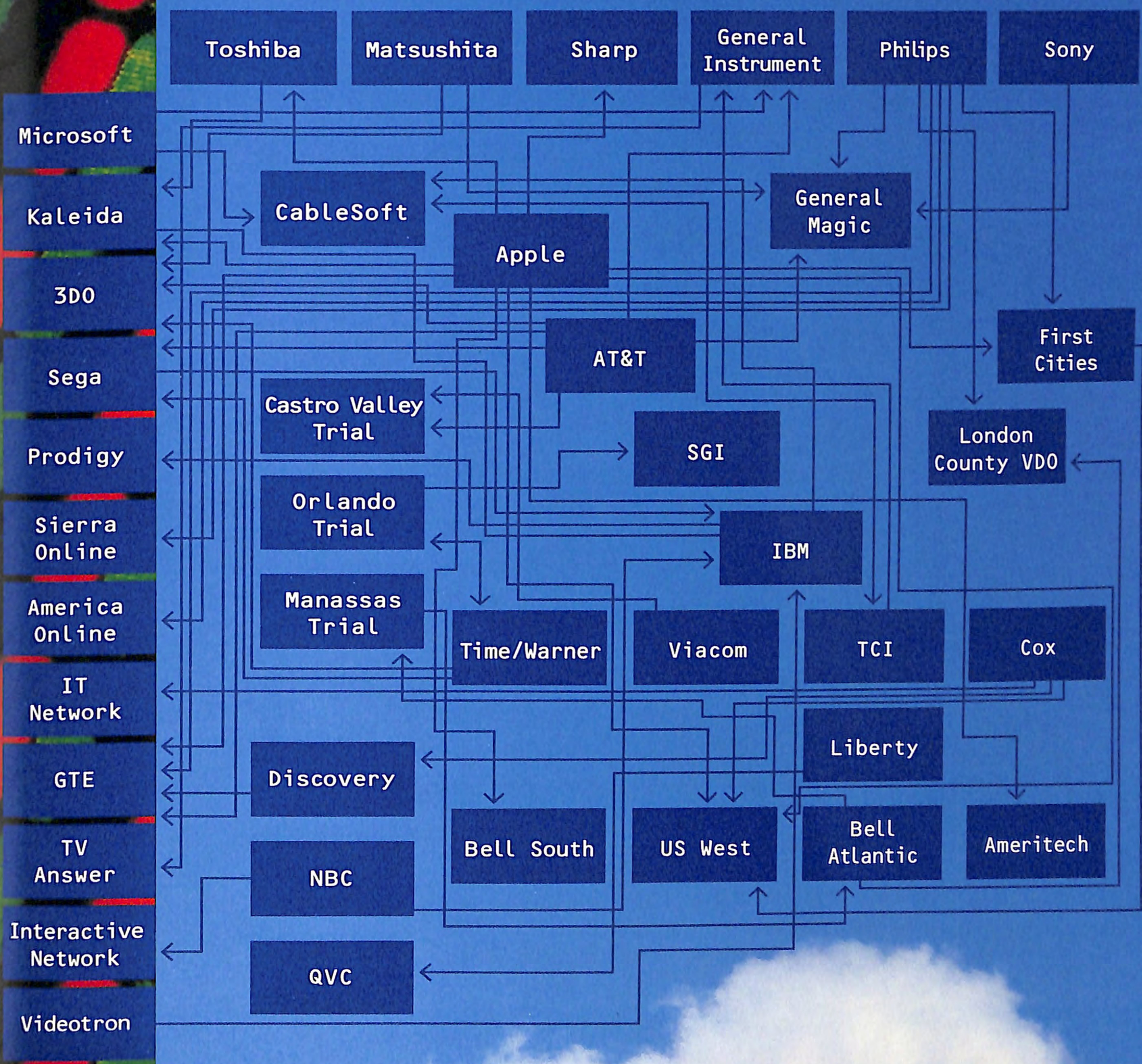
Manufacturers and retailers are already experimenting with direct investments in communication channels. For example, Reebok has made a direct investment in a health and fitness television channel.

Media buying

As a result of the proliferation of media, advertising agencies will become more valuable. We may even see closer integration of creative and media functions: a multiplicity of different media will make it essential that the same core message is delivered with different and appropriate treatment through different communications channels.

At the same time increased transparency, not only as a result of the Loi Sapin in France, but also because of less formal and legalistic pressure in other markets, has ensured that media buying groups such as The Media Partnership can compete on equal terms with media buying services. They will be in an excellent position to deliver maximum discounts to their clients. The unbundling of media buying services from the creative process that gained ground in the 1980s will be reversed by the continual fragmentation of the media.

Interactive Television Industry



In a world where 1500 channels essentially become MY channel, the capabilities exist to form a direct one-on-one relationship with the customer.

For the first time we will have the technology to build accountable, direct but also emotionally charged relationships with each and every customer.

Martin Nisenholtz,
O&M Direct, New York

Source: WPP 6/93

Advertising in Asia has changed. Already there is a shift in emphasis from package goods to new services in telecommunications, networks and information technology. These new clients require specialised understanding of emerging technologies and the way customers will use them.

Peter Koren,
J. Walter Thompson
(Enterprise division),
Hong Kong

Recovery in marketing services expenditure

Client expenditures have risen modestly, both in money and real terms, in recent years from depressed levels. For the first time for several economic cycles an increase in advertising expenditure has lagged the upturn in the economic cycle.

This can be explained by a number of factors. The slow economic recovery in the five major markets which accounts for over 75% of worldwide expenditure has made managements very cost conscious and they will only be prepared to increase their expenditure when a significant recovery is underway.

The deep recession has also made managements extremely conservative and fearful of taking significant risks and putting their positions in jeopardy.

Finally, the pressure on the cost base has made managements more conscious of value and they are carefully evaluating any increase in expenditure.

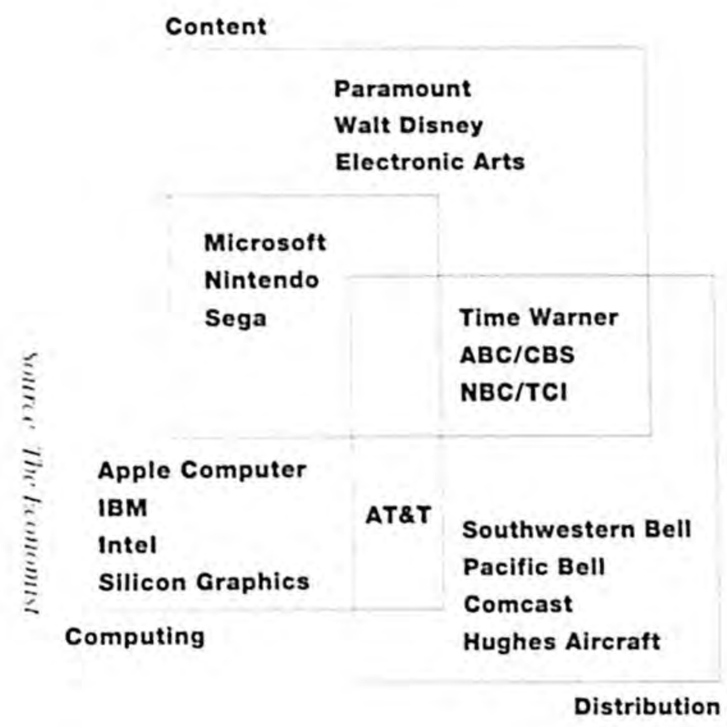
In 1994 it is likely that economic uncertainty will continue, particularly in Continental Europe. France and Italy may well emerge faster than Germany in 1994, although the latter will emerge more strongly in 1995 and beyond - boosted by the addition of the New Territories. Spain will continue to have difficulty until its government grasps the nettle and puts economic actions before political considerations. The US and UK economies will continue to suffer from the impact of revenue raising, tax-increasing budgets.

Agency remuneration and concentration

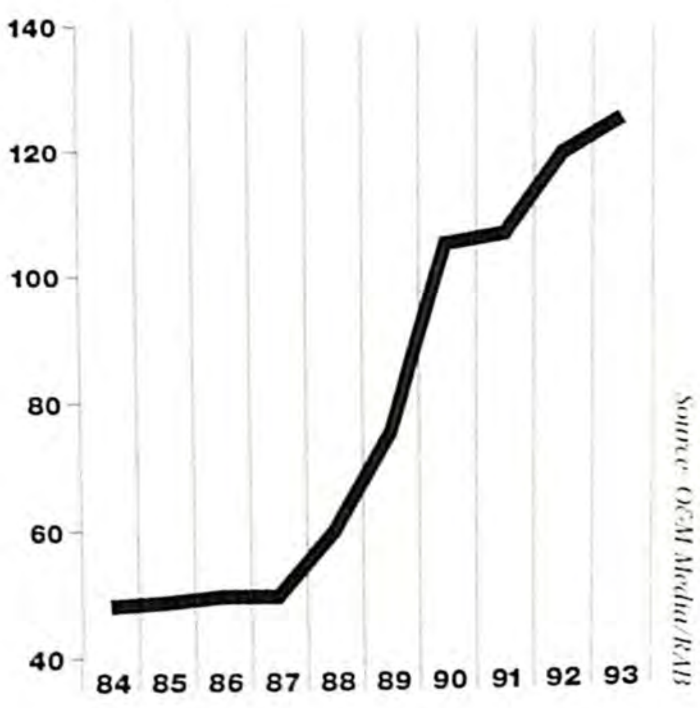
Over the last 10 years there has been a drift away from traditional agency commissions of 15% to lower commission rates or to fee structures. To some extent this was heightened by aggressive agency competition and price cutting.

However, with the level of competitive activity amongst our clients, and increased difficulty in distinguishing their products and services, clients have gained a greater appreciation of the value of clear strategic thinking and of outstanding creative execution

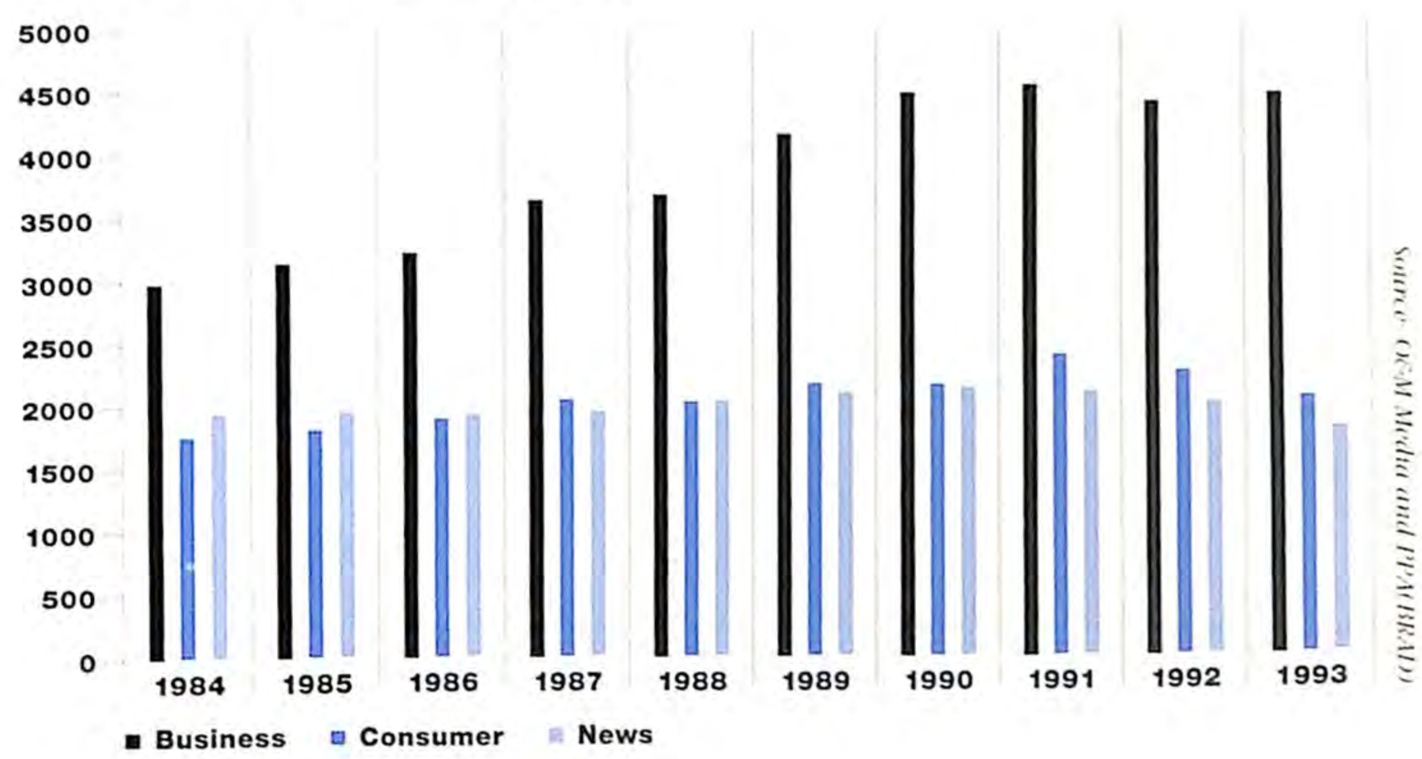
The 'bit' business



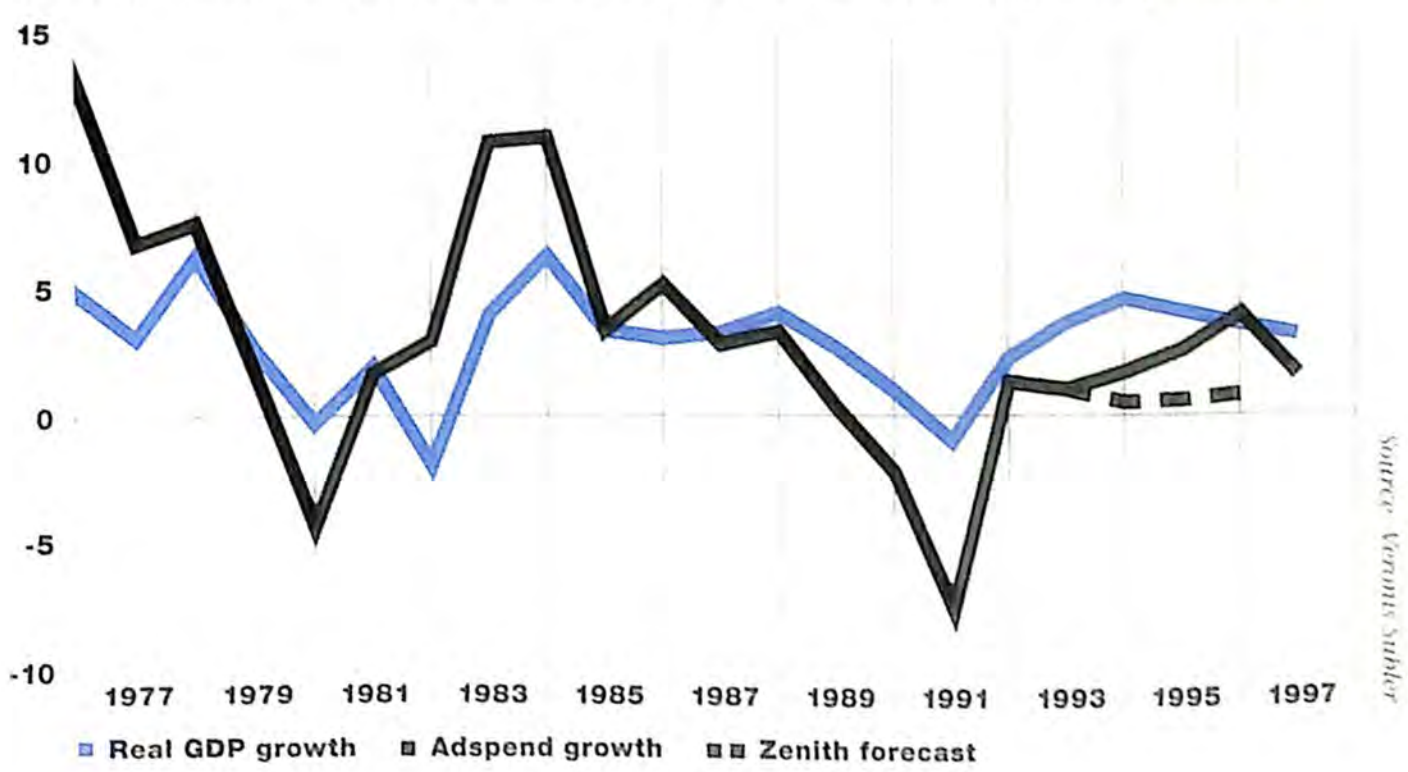
Growth of commercial radio stations in the UK



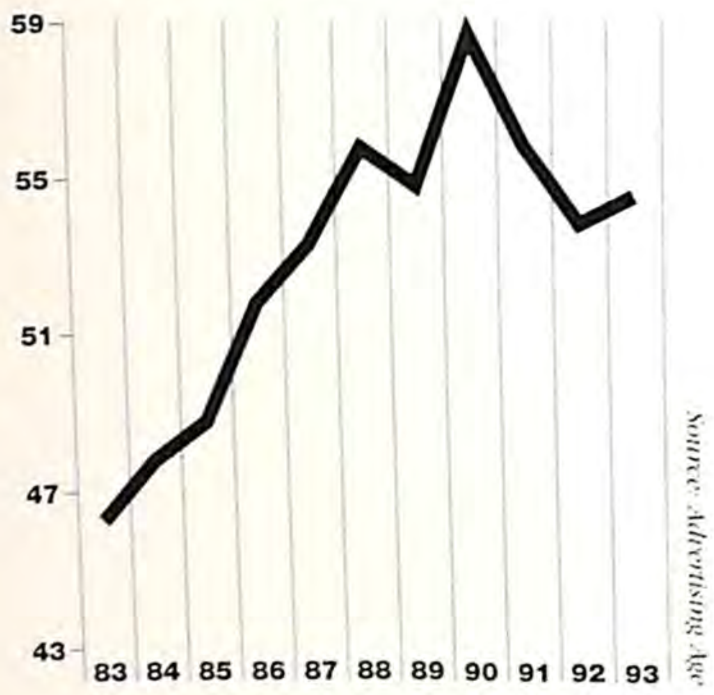
Growth in number of UK magazines



Real US advertising expenditure growth against real GDP growth *percentage*



Market share of Advertising Age top 10 agencies *percentage*

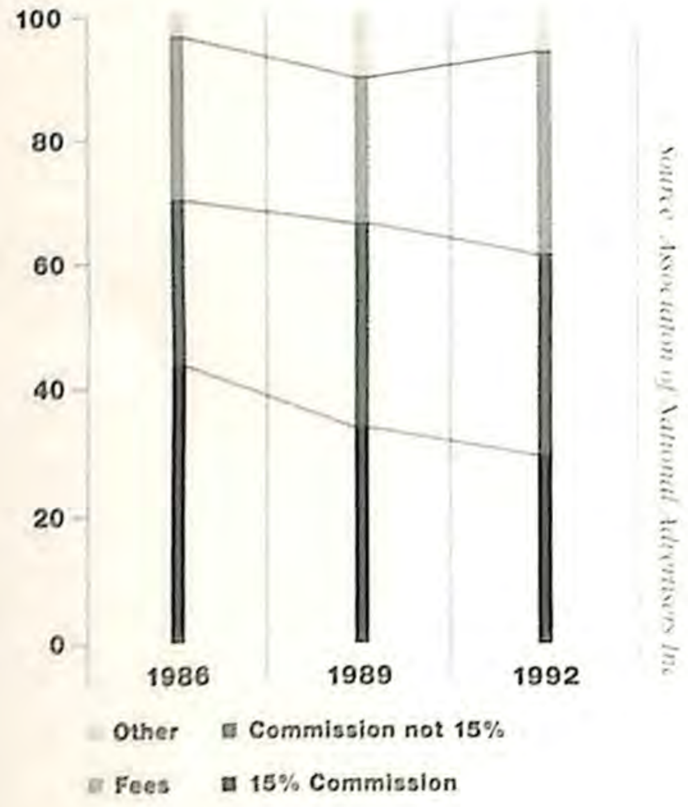


Multinational agencies

	No of countries	No of clients in more than ten countries
WPP		
Ogilvy & Mather	58	26
J. Walter Thompson	58	21
Omnicom		
BBDO	63	22
DDB Needham	64	17
Interpublic		
Lintas	48	12
McCann-Erickson	85	40
Saatchi & Saatchi		
Saatchi & Saatchi	65	21
BSB	54	16
Independents		
DMB&B	56	9
Leo Burnett	49	13
FCB Publicis	53	15
Grey	66	30
Young & Rubicam	56	21

Source: Advertising Age

Trends in US agency remuneration *percentage*



As a result they are looking for more creative ways of rewarding their agencies. In the last two years, three of the major multi-national packaged goods companies - Kraft General Foods, Nestlé and Unilever - have all reviewed their remuneration arrangements and in general settled on commission levels of 13% (to include media buying) with further bonuses of up to 3%, dependent on performance. Other companies, more usually national companies, have settled on time-based fees with built-in levels of profit well in excess of the average returns of approximately 10% on revenue that multi-national agencies are currently earning. This will give the agencies the chance of earning similar pre-tax returns to other professions such as consulting or banking, as long as they can adjust their overhead levels. Clients are unwilling to pay for excessive administrative costs.

This change in the nature of agency remuneration may also be a reflection of the growing market share of the largest agencies. In the last 10 years their market share has grown from approximately 45%-55%. It may also reflect the fact that there is a limited number of multi-national agencies that can service the needs of major multi-national clients. Only 13 agencies are able to service clients in 40 or more countries.

The opportunity for market research

Despite the recession the market research industry has seen significant growth in the mature economies of the United States, United Kingdom and Continental Europe. In the period 1990 to 1993, annual growth in market research revenues in these markets has been in the high single digit and low double digit range. As yet market research remains relatively under-developed in the emerging markets of Asia Pacific and Latin America and these markets will present a significant growth opportunity.

There are a number of reasons for this recent relatively strong revenue growth. First, with clients reducing their cost base there has been a tendency to dismantle internal research departments and rely increasingly on outside consultants. Secondly, market research remains a relatively cheap way of justifying larger expenditures particularly when all costs are being rigorously examined. Spending $100,000 on advertising tracking to monitor a $10 million advertising campaign is a small insurance premium. Thirdly, market research companies have clearly benefited from the multi-national expansion of their clients. Market research represents a key way of learning about and developing a clearer understanding of new markets.

Finally, given the increasing difficulty in differentiating products and services and the increasing level of competition, intuitive decision-making is more and more difficult and more and more risky. Even the most intuitive of managements is becoming more and more concerned about making judgments based on little or no data. As a result they are looking for statistical analysis and justification for their decision-making.

The pressure on brands

The 1980s were heralded as the era of the brand. Major packaged goods' companies in particular paid significant premiums over tangible asset value and sales to purchase valuable brand properties. Now in the 1990s brands have been accused of adding little or no value in return for a higher price. What went wrong?

To some extent branded goods' manufacturers brought it on themselves. In the inflationary 1980s brand prices were increased rapidly and at a faster rate than for competitive own label, store or discount brands. As a result it was only a question of time until branded goods became relatively too expensive. This has been seen in markets as diverse as tobacco, food and newspapers.

At the same time, retailers in most economies have been consolidating their control over distribution and increasingly introducing and promoting their own label alternatives to branded goods. In fact retailing has been one of the fastest growing segments of the advertising market: in the United Kingdom, for example, retail brands outspend packaged goods brands.

NEW LOW PRICE

Price competition is an admission of marketing failure – "we can't think of any value to add, so we'll give back some of the money we were taking from you." Quality competition is solving the consumer's problem better than anyone else.

Bob Tyrrell,
The Henley Centre, London

Many marketers believe that their company owns the brands they sell. They don't. Their consumers own their brands. Why? Because the image of their brand resides in the minds of consumers. Consumers may occasionally give you a piece of their minds, but that's about as much as you'll get – before you lose their brand loyalty.

Eugene J. Grossman,
Anspach Grossman Portugal,
New York

In China, knowledge of the company behind the product or service is <u>KEY</u> to virtually every buying decision.

Clifton Kagawa,
Hill and Knowlton,
Asia Pacific

Multinationals no longer ask "Who can we spare to send to Asia?" but rather "Who can we send to Asia?"

Javier Calero,
J. Walter Thompson, Manila

Against this background it is not surprising that in the disinflationary 1990s - reinforced by the deep recession in 1990-1992 - the consumer has become more price conscious. The price adjustments needed may well be painful particularly in terms of short-term profitability. This has been seen not only in the tobacco, food and newspaper industries but also in retailing itself where some retailers introduced higher quality and higher priced brands at the wrong time.

However, instead of concentrating on price alone there is clearly a need for brands to differentiate themselves through other ways - through technology and innovation, through their communication, and by maintaining a direct relationship with their ultimate consumers. This signals a growing demand for all marketing services - not only advertising, but other skills such as public relations, direct marketing and sales promotion.

Client conflicts

As major multi-national companies develop into new geographical markets and product sectors, they inevitably invade each other's territory. Given the limited number of agency networks, conflicts inevitably come to the fore. This issue has been further complicated by the growth of strategic alliances between hitherto bitter rivals.

Often these were entered into initially to use joint resources to develop complex and costly projects. Over time, however, it is possible that one joint venture partner will acquire the other.

Pepsi-Cola is working with Unilever in tea, Coca-Cola with Nestlé in coffee, Nestlé with General Mills in cereals, Unilever with BSN in yoghurt and all have chosen to make agency appointments which have caused previous conflict policies to be redrawn. This development, together with the emergence of third agency networks within agency groups, suggests these traditional, hard-and-fast conflict policies may soon be modified.

This will be a welcome change for the marketing services industry. Perhaps its relatively high profile and considerable exposure in the national and trade press has contributed to the issues of conflict.

Certainly the same problem is not apparent with management consultants, investment bankers, lawyers or auditors, despite the fact that all these professions are involved at the highest levels of their clients with important strategic decisions.

Worldwide practice developments

Given the geographical growth of the marketing services industry's clients and their worldwide reorganisation and restructuring, there is a clear opportunity for agencies to add value by developing worldwide practices which can share knowledge and information.

Although local markets will retain individual character and idiosyncrasies, and although very few products are capable of being marketed in the same way everywhere, there is considerable value in exchanging experience and knowledge between different geographies and functions.

This is not only of value to clients but to people within agencies too. In the future, such worldwide practice developments are likely to provide the cultural glue for professional service firms as employees share and swap knowledge and information.

Over recent years, practices have been developed in the media, healthcare and interactivity and convergence areas. They have been relatively easy to do in these fast-growing market segments, but similar practices will have to be developed by function and by industry category in the future ▫

Selected strategic alliances

Partners	Products
Fiat, Citröen, Peugeot & Lancia	MPV
Mercedes & Swatch	"Ecospeedster"
Isuzu & General Motors	Off-road vehicles
Ford & Volkswagen	Latin American markets
Ford & Mazda	"World" car
Nestlé & Coca-Cola	Coffee & soft drinks
Pepsi & Lipton	Teas
Unilever & BSN	Yoghurts
General Motors & HFC Bank	Credit cards
Ford & Citibank	Credit cards

Selected healthcare alliances

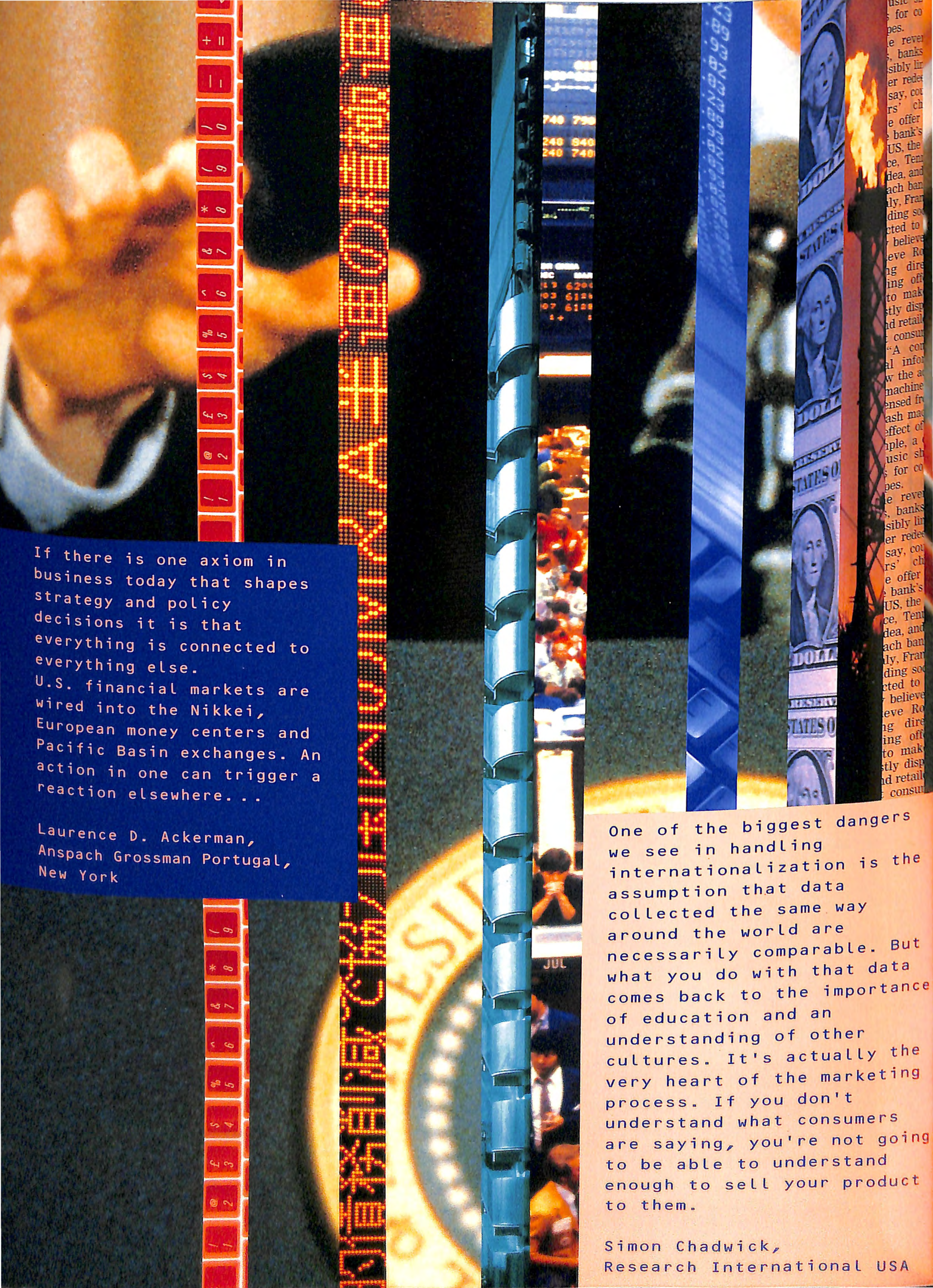
Partners	Products
Merck & Johnson & Johnson	Pepcid
Marion Merrell & SmithKline Beecham	Gaviscon Cepacol Seldane Nicoderm Tums Contac
Burroughs Wellcome & Warner-Lambert (Warner-Wellcome Consumer Health Products)	Zovirax Actifed Sudafed Neosporin Listerine Benylin Benadryl Sinutab Efferdent Replens Anusol
Glaxo & Warner-Lambert	Zantac

Source: American Druggist

% sales in domestic and overseas markets

	Home market	Outside home market
Avon Products	69	31
Colgate-Palmolive	33	67
Duracell	47	53
Gillette	33	67
Helene Curtis	71	29
Kraft General Foods	72	28
Mars	30	70
Mattel	52	48
Nestlé	2	98
Procter & Gamble	60	40
Tambrands	59	41
Unilever	19	81

Source: Business Week, Goldman Sachs and company accounts



If there is one axiom in business today that shapes strategy and policy decisions it is that everything is connected to everything else.
U.S. financial markets are wired into the Nikkei, European money centers and Pacific Basin exchanges. An action in one can trigger a reaction elsewhere...

Laurence D. Ackerman,
Anspach Grossman Portugal,
New York

One of the biggest dangers we see in handling internationalization is the assumption that data collected the same way around the world are necessarily comparable. But what you do with that data comes back to the importance of education and an understanding of other cultures. It's actually the very heart of the marketing process. If you don't understand what consumers are saying, you're not going to be able to understand enough to sell your product to them.

Simon Chadwick,
Research International USA

WPP Group plc

Financial report

Financial strategy

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

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

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

Financial statements for the year ended 31 December 1993

Operating review

The board of WPP presents the audited results for the year ended 31 December 1993. These results represent a significant improvement over those for 1992 in continuing difficult economic conditions.

Summary of 1993 results

- 1993 turnover rose by 12.3% from £5.367 billion to £6.030 billion.
- 1993 revenues rose by 12.3% from £1.273 billion to £1.431 billion.
- 1993 operating profit before exceptional items included within operating activities rose by 24.4% from £87.8 million to £109.2 million.
- 1993 operating profit rose by 34.3% from £70.8 million to £95.0 million.
- 1993 profit before tax rose by almost 600% from £7.8 million to £54.4 million. The results for 1992 included refinancing costs of £13.5 million.
- Basic earnings per share were 4.9p. Headline basic earnings per share (before non-operating exceptional items) were 7.4p.
- Fully diluted earnings per share were 3.4p. Headline fully diluted earnings per share were 5.0p.
- Attributable profit amounted to £20.6 million.
- The directors will be recommending a final dividend of 0.65p net per share on the Group's Ordinary shares for 1993 making a total of 1.0p net per share for 1993. As a result, retained profit for the year will total £15.4 million.

Margins

The Group's operating profit margin widened from 5.6% to 6.7% in accordance with its financial objectives. Before severance payments margins rose from 6.9% to 7.6%. Average headcount in 1993 was 20,416 compared with 20,664, down by over 1%. At the end of 1993 headcount was 19,137 reflecting the impact of the sale of certain subsidiaries and continued efforts to bring staff cost to revenue ratios in line with competitive performance. Operating margins before incentive and severance payments rose from 8.8% to 9.5% particularly reflecting improvements in productivity at J. Walter Thompson Company and Ogilvy & Mather Worldwide.

Underlying Group pre-tax margins (after net interest expense of £29.8 million in 1993 against £34.1 million in 1992 and before non-operating exceptional items) rose from 2.9% to 4.6% chiefly reflecting lower interest rates, increased liquidity as a result of the rights issue in April 1993 and the movement in exchange rates.

Background to results

As with 1992, 1993 was a better year than the previous one. Growing confidence in the United States was counter-balanced by continuing uncertainty in Europe, whilst growth continued in the emerging markets of Asia Pacific and Latin America.

Media advertising, market research and certain aspects of non-media advertising and specialist communications benefited particularly. As a result, the Group's budgeted gross margin was achieved with operating costs just over budget.

1993 was a year of three distinct phases. From January to May revenues in constant currencies strengthened over the previous year. However, from June to September similar year-to-year comparisons were slightly down primarily reflecting the third quarter strength in 1992 as a result of the Olympic Games in Barcelona and Expo in Seville. From October to December year-to-year revenue growth resumed at levels similar to or better than January to May.

Review of operations

1993 revenues on a like-for-like basis were 4.0% up on the previous year in constant currency. On the same basis gross profit was 3.9% up on 1992, reflecting a slight change in the mix of revenues. Operating costs, including severances, were 2.0% up on the previous year. Whilst staff costs rose by only 1.5%, and salaries by 2.1%, salaries per head rose by 2.4% to reward superior performance in successful offices.

Some outstanding performances were achieved. Functionally media advertising, market research and some direct marketing, design, sales promotion and specialist communications companies met their targets. Geographically North America, Latin America, Australia and New Zealand and Asia Pacific achieved the same.

Of the Group's functional divisions, public relations is still most affected by general economic conditions. Retail design, real estate advertising, recruitment advertising and some parts of sales promotion also continue to be adversely affected.

On a comparable basis revenues by service sector rose by 9.0% in strategic marketing services, by 4.5% in media advertising, by 10.9% in market research, and by 8.8% in specialist communications. Revenues fell by 9.0% in public relations and by 3.3% in non-media advertising. Geographically, revenues rose by 5.2% in North America, 0.4% in Europe and 10.8% in the Rest of the World.

In 1993, the Group added net new business revenues of over £174 million ($262 million) equivalent to net billings of £1,165 million ($1,748 million). This compares to £147 million ($221 million) equivalent to net billings of £981 million ($1,472 million) in 1992.

Analyses of revenues and profits by function and geographical area are presented on page 3.

Media advertising

In 1993, Ogilvy & Mather Worldwide's revenues (including Cole & Weber and Ogilvy Direct) rose by over 5% and operating costs by 4.7%. Operating margins were 6.9%. Three floors of Worldwide Plaza have now been sublet. This will result in an annual cash saving of $1.9 million. Ogilvy & Mather Worldwide generated net new billings of over £145 million ($218 million).

J. Walter Thompson Company's revenues rose by over 4% and operating costs by 3.2%. Operating margins were 10.5%. J. Walter Thompson Company generated net new business billings of over £316 million ($475 million).

Conquest Europe's revenues were flat. However, operating costs fell by 5.0%.

Public relations

The public relations sector of the Group's business continues to be affected the most by the difficult economic conditions.

Hill and Knowlton's revenues fell by over 5% and operating costs by 7.4%. As a result, Hill and Knowlton's operating loss was less than in 1992. Following the appointment in 1994 of a new chairman and chief executive officer, who also heads the US region, Hill and Knowlton's operations particularly in the United States are being restructured and reorganised.

Ogilvy Adams & Rinehart's revenues fell by almost 15% and operating costs by 8.8%, resulting in a profit before exceptional items.

Market research

As a group our research businesses had another good year. In particular the worldwide operations of Research International, Millward Brown in the United States and United Kingdom and the MRB Group in the United Kingdom, Australia and Japan, performed well.

Strategic marketing services, non-media advertising and specialist communications

Several of our companies in these sectors performed particularly well - including in the United States, Anspach Grossman Portugal, SBG Partners, WalkerGroup/CNI, Brouillard Communications, Einson Freeman, A Eicoff & Company, HLS CORP, Ogilvy & Mather Direct, Ferguson Communications Group and Thompson Recruitment and in the United Kingdom, EWA, Coley Porter Bell, Mando Marketing, OYA and SampsonTyrrell. Other companies performed reasonably well with the exception of Seiniger Advertising which was sold.

Manufacturing

The Group's manufacturing division began to recover from the impact of the recession in 1992 with profits rising from £0.1 million in 1992 to £0.3 million in 1993.

Business mix and growth

The Group employed 19,137 people in over 753 offices in 74 countries at the year end. It services over 300 of the Fortune 500 companies and almost 300 national or multi-national clients in three or more functions. Sixty clients are serviced in five or more functions.

The Group also works with approximately 330 clients in three or more service sectors; and with well over 100 in six or more countries. These statistics reflect the increasing opportunities for developing client relationships between activities nationally, internationally and by function.

Staff costs

Staff costs were 51.7% of revenues in 1993, down from 53.0% in 1992. This represents continued improvement, although in significant parts of the Group, these ratios are still above competitive levels, as are salaries as a percentage of revenues. Newly introduced incentive plans are continuing to have an impact on improving profitability by incentivising operating management to improve revenue growth and examine staffing levels. In addition they are increasing the proportion of total compensation that is variable with performance.

Property costs

Further progress has been made in reducing the amount and cost of excess office space. During 1993 160,000 square feet of space was sublet with a net saving related to vacant space of $5.9 million annually in rental costs. Excess space remaining totals 456,000 square feet, amounting to approximately 9% of worldwide square footage, with a rental cost of $14.6 million annually. Full provision has been made for these costs on the basis of reasonable assumptions as to sublet possibilities and occupation through the termination of other Group leases. In addition to Worldwide Plaza, Ogilvy & Mather Worldwide's headquarters building in New York, significant amounts of excess space have been or will be occupied or sublet in New York, London, Chicago and Los Angeles.

Operating review

Indebtedness

At the year end, net debt totalled £84 million against £240 million at the end of 1992 or £245 million at the same exchange rates. The reduction was primarily due to increased levels of activity in the traditionally strong fourth quarter, management efforts to improve liquidity at the year end and the benefits of the rights issue and company sales. Net debt averaged £361 million in 1993 against £395 million in 1992 at constant exchange rates. On a pro-forma basis taking into account the impact of the £85 million ($123 million) rights issue completed in April 1993 for a full year, average net debt was £339 million in 1993 versus £312 million in 1992.

At 31 December 1993, negative share owners' funds of £162 million compared with £253 million in 1992, reflecting the benefit of the April 1993 rights issue.

Cash flow

The net cash outflow of approximately £27 million in 1993 was almost totally due to cash earnout payments of £28 million. Remaining earnout payments are estimated to total £48 million in the period 1994-97 of which £34 million are in cash. In 1993, capital expenditure totalled £24 million against a depreciation charge of £26 million.

The sale of Scali, McCabe, Sloves, Inc., with the exception of its Dutch, German and Brazilian agencies, its New York sales promotion company and its New York property, has yielded total consideration of over $70 million. This figure was considerably in excess of the revenues attributable to the Group's ownership interest which were $54.5 million in 1993.

The Group has already repaid in advance $124 million of the $150 million bridge loan facility due for repayment on or before 1 July 1994. The remaining $26 million will be repaid shortly and by the due date.

Although current levels of indebtedness and net interest payments are manageable, the board continues to explore possible asset disposals and other opportunities to improve the Group's capital structure, although on a less pressurised basis.

Two options in particular are being considered. First, a senior debt issue and secondly a flotation of a minority interest in the market research businesses. Either option could yield up to approximately $200 million in proceeds for improving the debt profile or further debt reduction.

Given the likely interest costs of the senior debt issue, your board considers at this time that a flotation of a minority interest in its market research businesses would be more beneficial. As a result advisers have been appointed to advise on the flotation of the worldwide market research interests on the United Kingdom stock market. The market research group's revenues in 1993 were $320 million.

A successful completion of the sale of a minority interest in the market research companies would reduce average net indebtedness to approximately £200 million, which compares with a current equity market value (assuming the conversion of the remaining Convertible Cumulative Redeemable Preference shares at current market prices) of approximately £850 million.

Treasury policy and activities

Foreign exchange

A significant proportion of the Group's revenues, operating profits and cash flows (approximately 80% to 90%) are in currencies other than sterling. As the needs of our clients are mainly serviced locally there are only therefore limited instances of significant cross border trading exposures to foreign exchange fluctuations.

When significant exposures do arise these are covered by short term forward contracts. No speculative foreign exchange trading is undertaken.

The reported earnings of the Group are affected by the value of sterling relative to overseas currencies, the most significant being the dollar. The Group does not hedge reported earnings, although some natural hedging is provided by having a broad portfolio of over 70 reporting currencies. In addition, the Group's predominantly dollar denominated debt is serviced primarily by dollar earnings in the US. The Group analyses and reports its performance on a constant currency basis wherever relevant.

No hedging is undertaken in relation to the accounting translation of overseas balance sheets. This results in a fluctuation in the sterling value of share owners' funds due to movements in exchange rates.

Interest rate management

The Group's interest rate management policy is to ensure that a significant proportion of its borrowings either are on a fixed rate basis or are hedged against significant increases in medium term interest rates. In 1993 the Group has taken advantage of historically low US dollar interest rates by extending the maturity of the interest hedging that was previously in place. The Group has now hedged the majority of its floating rate borrowings at US dollar LIBOR rates of 6% and below (excluding margin and hedging costs), with maturities extending into January 1999.

Operating review

Taxation

The underlying Group tax rate on profits before non-operating exceptional items fell to 45% in 1993 compared with 47% in 1992. This results primarily from the reduction in the effective rate of tax in Europe.

Accounting standards

WPP's financial statements are prepared under generally accepted accounting principles in the UK (UK GAAP). All the operations of the Group fall within the definition of continuing operations.

Advisers to the board

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
Goldman Sachs International Limited
Peterborough Court, 133 Fleet Street, London, EC4A 2BB
S G Warburg & Co.
2 Finsbury Avenue, London, EC2M 2PA

Stockbrokers

Panmure Gordon & Co. Limited
New Broad Street House,
35 New Broad Street,
London, EC2M 1NH

Legal advisers

Allen & Overy
9 Cheapside, London, EC2V 6AD
Davis & Gilbert
1740 Broadway, New York, NY 10019
Edge & Ellison
18/19 Southampton Place, London, WC1A 2AJ
Fried, Frank, Harris, Schriver & Jacobson
1 New York Plaza, New York, NY 10004

Auditors

Arthur Andersen
1 Surrey Street, London, WC2R 2PS
Coopers & Lybrand
32 rue Guersant, 75833 Paris Cedex, France

Executive remuneration consultants

Towers Perrin
245 Park Avenue, New York, NY 10167

Property advisers

James Andrew Badger Ltd
11 Waterloo Place, London, SW1Y 4AU
Knight Frank & Rutley
32 Coleman Street, London, EC2R 5AA

Board of directors

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

Martin Sorrell
Group chief executive
Martin Sorrell joined WPP in 1986 as a director, becoming Group chief executive in the same year. He is also a non-executive director of Storehouse plc.

Robert Lerwill
Group finance director
Robert Lerwill joined WPP in 1986 as group finance director. He joined WPP from Arthur Andersen where he worked for 13 years with UK and international public company clients.

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

Brian Brooks
Director, human resources
Brian Brooks joined WPP in September 1992. Previously he was a partner at Towers Perrin in New York and London, specialising in human resources and employee compensation.

Jeremy Bullmore *Non-executive director*
Jeremy Bullmore was appointed a director in 1988 after 33 years at J. Walter Thompson, London, the last eleven as chairman. He was chairman of the Advertising Association from 1981 to 1987 and has written and lectured extensively on marketing and advertising. He is also a non-executive director of the Guardian Media Group plc.

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

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

Stanley Morten *Non-executive director*
Stanley Morten, was appointed a director in 1991. He is managing director of the equity division of Wertheim Schroder & Co., Inc. in New York, with responsibility for investment research, sales, trading, syndicate and international operations.

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

Holding company senior executives

N C Berry
D F Calow *(Company secretary)*
M W Capes
D G Errington
S Goldstein
F McEwan
M Richardot
P W G Richardson
D M Roberts
E Salama
M Sampson
M Thorne

D Barker
R J C Beanland
R C Clementson
J Drefs
A Hall
W F Hickson
M E Howe
R Hughes
T O Neuman
M L Rooker
A G Stimpson
J Treacy
P Williams

Directors' responsibilities

Corporate governance

During 1993 the Company has complied with all the recommendations contained in the Cadbury Committee's code of best practice on which official guidance has been issued.

Directors' operational role and responsibilities

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

Non-executive directors of the Company are drawn from a diverse range of backgrounds in order to provide a wide range of views in respect of the business, financial and strategic activities of the Group. Although certain non-executive directors hold shares in the Company, so as to enhance their independence they do not participate in the Company's share option schemes. They take an active role on board committees, which include:

Audit committee

The Audit committee meets at least three times a year to monitor accounting issues, the Group's internal control systems and audit-related matters. The committee comprises the following non-executive directors: Messrs J A Quelch (*chairman*), J J D Bullmore, P R Judge and S W Morten.

Compensation committee

The Compensation committee reviews the remuneration and terms of employment of executive directors of the Company and senior executives in subsidiary companies. The committee comprises the following non-executive directors: Messrs P R Judge (*chairman*), G K G Stevens and S W Morten.

Nomination committee

The Nomination committee considers candidates for appointment to the board of directors and makes recommendations in this respect to the board. The committee comprises Messrs G K G Stevens (*chairman*), B J Brooks, P R Judge, S W Morten and M S Sorrell.

Responsibilities in respect of the preparation of financial statements

The directors are required by company law to prepare financial statements which give a true and fair view of the state of affairs of the Company and Group at the end of each financial year and of the profit or loss of the Group for that year. The financial statements must be prepared in compliance with the required formats and disclosures of the Companies Act 1985 and with applicable accounting standards. In addition, the directors are required:

- to select suitable accounting policies and apply them consistently;
- to make judgements and estimates that are reasonable and prudent;
- to take account of expenses and income relating to the period being reported on;
- to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

The directors confirm that the financial statements comply with the above requirements. The directors are also responsible for maintaining adequate accounting records to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985, for safeguarding the assets of the Group, and for preventing and detecting fraud and other irregularities.

Statement of compliance with the Cadbury Committee's code of best practice

In addition to their audit of the financial statements, the Company's auditors, Arthur Andersen, have reviewed the directors' statement set out above concerning the Company's compliance with the code of best practice, insofar as it relates to the paragraphs of the code which the London Stock Exchange has specified for their review.

They carried out their review having regard to the Bulletin Disclosures relating to corporate governance issued by the Auditing Practices Board, which do not require the auditors to review the effectiveness of the Company's governance procedures.

The auditors have reported to the directors that, through enquiry of certain directors and officers of the Company, and examination of relevant documents, they have satisfied themselves that the directors' statement appropriately reflects the Company's compliance with the specified paragraphs of the code.

Directors' interests and remuneration

Directors' interests

Directors who served in the year and their interests, all of which were beneficial, in the Company's share capital were as follows:	At 1 January 1993		At 31 December 1993		At 6 May 1994	
	Ordinary shares	Subscription warrants	Ordinary shares	Subscription warrants	Ordinary shares	Subscription warrants
B J Brooks	10,000	–	10,000	–	10,000	–
J J D Bullmore	17,925	375	20,065	375	20,065	375
J Jackson (appointed 28 September 1993)	–	–	–	–	–	–
P R Judge	–	–	–	–	–	–
S H M King (retired 15 April 1993)	–	–	–	–	–	–
R E Lerwill	56,684	7,509	73,738	7,509	73,738	7,509
S W Morten	–	–	–	–	–	–
J A Quelch	400	–	10,000	–	10,000	–
G C Sampson	407,077	–	500,000	–	500,000	–
M S Sorrell	1,510,425	116,285	1,310,425	116,285	1,310,425	116,285
G K G Stevens	10,000	–	18,000	–	18,000	–

Directors' emoluments

Directors of the Company received the following remuneration:	**1993 £000**	1992 £000
Salaries, fees, allowances and taxable benefits	**1,443**	1,197
Bonuses (performance related)	**496**	116
Pension contributions	**98**	35
	2,037	1,348

Directors based in the United Kingdom, including the highest paid director, received emoluments (excluding pensions and pension contributions) in the following ranges:	**1993 Number**	1992 Number
£nil to £5,000	**1**	1
£15,001 to £20,000	**–**	1
£20,001 to £25,000	**2**	–
£45,001 to £50,000	**1**	–
£60,001 to £65,000	**–**	1
£70,001 to £75,000	**–**	1
£90,001 to £95,000	**1**	1
£170,001 to £175,000	**1**	–
£260,001 to £265,000	**–**	1
£305,001 to £310,000	**1**	–
£505,001 to £510,000	**–**	1
£955,001 to £960,000	**1**	–

Directors' interests and remuneration

Directors' emoluments include £956,000 (1992: £510,000) in respect of the highest paid director, who received no pension or social security contributions.

Under the terms of the highest paid director's contract (which are currently under review), an annual bonus is payable determined by the percentage increase in the Group's annual earnings per share applied to the annual remuneration due. An award on account for this director's 1993 bonus entitlement has been made to date of £351,000 (1992: £nil).

Performance-based bonuses amounting to £145,000 were paid to two other executive directors in relation to 1993 results (1992: £116,000).

Executive directors and management of the Company participate in an annual incentive plan which ties a portion of their annual compensation to the achievement of the Group's annual financial targets. In addition, the executive directors and a number of key employees participate in a long term incentive plan which is based on achieving share owner returns which exceed the median of other major publicly traded marketing services companies, over rolling three year periods, and executive directors and management also participate in share option and phantom share schemes.

The Chairman received £175,000 in respect of his services (1992: £71,000 from appointment).

Share options

	1 January 1993	Movements in year	31 December 1993	Movements since year-end	6 May 1994		
Options granted to the directors are as follows:	Number	Granted	Number	Granted	Number	Date granted	Exercise price
B J Brooks	626,214	–	626,214	–	626,214	25/9/92	29.5p
	–	229,331	229,331	–	229,331	28/9/93	102p
R E Lerwill	58,674	–	58,674	–	58,674	14/4/86	307p
	16,548	–	16,548	–	16,548	7/4/87	647p
	11,632	–	11,632	–	11,632	1/9/87	589p
	58,777	–	58,777	–	58,777	26/9/88	429p
	–	857,143	857,143	–	857,143	29/4/93	52.5p
	–	–	–	195,652	195,652	15/4/94	115p
M S Sorrell	–	190,476	190,476	–	190,476	29/4/93	52.5p

Options in existence prior to 8 April 1993, and their exercise price, have been adjusted to reflect the impact of the rights issue which occurred on that date. Options are normally exercisable between three and ten years from the date of issue.

Appointment and retirement of directors

Mr J Jackson was appointed to the board on 28 September 1993, subsequent to the date of the last Annual General Meeting.
He therefore retires and, being eligible, offers himself for election. Mr Jackson does not have a service contract.
Mr S H M King retired as director of the Company on 15 April 1993.
Messrs G K G Stevens and S W Morten retire by rotation and, being eligible, offer themselves for re-election. Mr Stevens has a service contract with a notice period of three months on his side, or twelve months where notice is served by the Company. Mr Morten does not have a service contract.

Directors' other interests

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.

Substantial share ownership

As at 6 May 1994, the Company has been notified of the following interests of 3 per cent or more in the issued Ordinary share capital of the Company:

	%
Provident Mutual	3.82
Fidelity	3.81
Banking syndicate	6.82

The disclosed interest of Fidelity refers to the combined holdings of FMR Corp., Fidelity International Limited and Edward C Johnson III (the principal share owner of these companies).

Members of the banking syndicate are all parties to the agreement dated 1 July 1992 relating to the allotment of the Company's Convertible Cumulative Redeemable Preference shares. This agreement falls within the terms of Section 204 of the Companies Act 1985. Therefore, each member of the banking syndicate is deemed to have an interest in the aggregate holdings of itself and other members of the syndicate in the Ordinary share capital of the Company. That aggregate interest in Ordinary shares is primarily of a non-beneficial nature and represents 6.82% of the Company's issued Ordinary share capital. Those members of the banking syndicate holding Ordinary shares are detailed below together with the percentage of their share ownership, as notified to the Company at 6 May 1994:

	%
Barclays Bank plc	4.67
National Westminster Bank plc	1.42
Deutsche Bank A.G.	0.47
The Royal Bank of Scotland plc	0.22
Midland Bank plc	0.03
Citibank N.A.	0.01
	6.82

The Company has not been notified of any other holdings of Ordinary share capital in excess of 3 per cent.

Employee information

Equal opportunities

The Group endorses and supports the principles of Equal Employment Opportunity. It is the policy of the Group to provide Equal Employment Opportunity to all qualified individuals without regard to race, creed, colour, age, religion, sex, disability, sexual orientation, marital status, military service, national origin or ancestry.

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

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.

At 31 December 1993 options had been granted under the WPP Executive Share Option Scheme to a total of 660 employees, over 13,503,044 (1992: 8,674,342) Ordinary shares of the Company. The number of options granted in 1992 and 1993 has been adjusted to reflect the impact of the rights issue completed on 8 April 1993.

Statutory information

Profits and dividends

The profit on ordinary activities before tax for the year was £54,351,000 (1992: £7,768,000).

The directors recommend a final ordinary dividend of 0.65p (net) per Ordinary share to be paid on 18 July 1994 to share owners on the register at 16 June 1994 which, together with the interim ordinary dividend of 0.35p per Ordinary share paid on 30 November 1993, makes a total of 1.0p (net) for the year (1992: nil). Dividends payable for the year in respect of the Company's Convertible Cumulative Redeemable Preference shares amount to $0.17 per share.

The retained profit for the year of £15,355,000 is carried to reserves.

Group activities

The principal activity of the Group continues to be the provision of marketing services worldwide. The Company acts only as a holding company and does not trade. A full review of the Group's activities during the year and its future prospects is given in the operating review on pages 48 to 51 and in the letter to share owners on pages 4 and 5.

Fixed assets

The consolidated balance sheet includes a conservative estimate of certain corporate brand names. Details of this and movements in fixed assets are set out in notes 11 to 13.

Share capital

It is proposed to extend the existing powers of your directors in relation to the allotment of Ordinary shares for cash, in order to give your Board continuing flexibility. Share owners' approval is therefore sought at the Annual General Meeting to disapply the pre-emption provisions of Section 89(1) of the Companies Act 1985 in relation to Ordinary shares of an aggregate nominal value not exceeding £3,622,000. This figure represents approximately seven per cent of the Ordinary share capital in issue, and share owners' approval is sought to that extent in view of the possible conversion of the Convertible Cumulative Redeemable Preference shares during the year. The resolution follows guidance given by the Association of British Insurers, with whose guidelines the Company will continue to comply, including the cumulative limits on the exercise of the Company's disapplication entitlement.

Executive share option scheme

The WPP Group plc Executive Share Option Scheme was adopted eight years ago, in 1986. Since that time various changes have taken place to the operation of such schemes and the board now considers it appropriate to update the scheme. Share owners' approval is therefore sought at the Annual General Meeting to give effect to these changes.

In summary the changes are as follows:

At present under the scheme there is a restriction on the aggregate number of shares which may be placed under option pursuant to this scheme and the other share schemes of the Company. As presently drafted, the rules specify that this maximum limit is equal to the lesser of 20,000,000 shares and 10% of the Company's issued Ordinary share capital. As these limits have been in place since 1989, and following the recent increases in your Company's issued Ordinary share capital, the numerical limit is no longer appropriate and therefore the board is seeking your consent to amend this rule. Since a recent change in the listing rules of The London Stock Exchange now means that it is unnecessary for a specific number of shares to be identified in the rules of a share scheme, it is proposed that the 20,000,000 shares limit be deleted and that the Company only be restricted by the 10% limit. This would mean that the amended rule would be unlikely to require further amendment, even if the number of issued shares of the Company were again to increase. In the opinion of the board, this amendment is entirely appropriate.

It is also proposed that any options which have previously lapsed or been waived should not count towards the 10% limit referred to above. This change would be in accordance with the guidelines issued by the Association of British Insurers.

Under the present scheme, if any option were granted which breached the limits on any individual's participation, the Inland Revenue would refuse to allow any part of that option to receive the normal taxation treatment of options granted under an approved scheme. Accordingly, it is proposed that a new rule be introduced with the effect that any option granted will only have effect to the extent that it is within the limit on the individual's participation. This will ensure that the favourable taxation treatment is not lost.

It is also proposed to delete the provision preventing an option holder from exercising any options earlier than three years after a previous partial exercise, which currently requires an option holder to exercise his remaining options in a tax efficient manner. This provision is considered unduly prescriptive by the board, it being more appropriate to allow option holders to arrange their own tax affairs.

Statutory information

Executive share option scheme *continued*

If the holder of an option were to leave the Company, the existing rules would not allow that person to exercise his options unless the board decided otherwise, which it may in certain cases. The Inland Revenue now require that the question of whether or not an option holder may exercise his options in certain circumstances - which include redundancy, death and retirement through ill-health - should not be subject to the Company's discretion. Accordingly, it is proposed that option holders should have an absolute right to exercise their options during the six month period following the termination of their employment or office, where such termination occurs for one of those specified reasons.

It is proposed that the board be given the power to increase the time period during which an option holder who has left for one of the above specified reasons may exercise his options. The Inland Revenue requirement referred to in the paragraph above does not prevent the board from having a discretion to extend the rights of such an option holder. It is also proposed that the board be given an absolute discretion as to whether options may be exercised where an option holder has left for other reasons (for example, on resignation) to take account of the wide range of circumstances under which such an eventuality may arise.

If the Company were ever to be the subject of a takeover, any options then in issue would only be capable of exercise within a brief period (usually six months). If the options were less than three years old, the option holder would then be faced with the choice of either giving up his option or exercising the option and losing the usual taxation benefits under an approved scheme. To increase the flexibility of the scheme, it is your board's intention to introduce a new provision to the effect that the acquiring company may grant to an option holder an option under its own scheme in substitution for his existing options under the Company's scheme.

Certain amendments of an administrative and minor drafting nature are proposed. These include the ability of the Company to grant options without following a formal invitation and acceptance procedure and the introduction of flexibility on the granting of options outside the normal "window periods", subject always to the Company's code relating to dealings by directors in the Company's shares. In accordance with the recommendations of the Cadbury Committee's code of best practice, the administration of the scheme will now be conducted by the Compensation Committee. References to statutory provisions have also been updated.

Finally, it is also proposed that, in accordance with the listing rules of The London Stock Exchange, the Company be given the authority to make further amendments of a minor or administrative nature, without the need to obtain specific share owner approval thereto, when such amendments are to benefit the administration of the scheme or to maintain favourable tax or regulatory treatment for participants or members of the Group.

Class 4 transaction waivers

During the year, the Company was granted waivers by The London Stock Exchange in respect of transactions which involved Class 4 parties, as defined in the then current listing rules of The London Stock Exchange. Details of these transactions are contained in note 25 to the financial statements.

Charitable and political contributions

The Group contributed £200,000 to UK charities in 1993 (1992: £114,000). No contributions were made to political parties.

Close company status

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

Auditors

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

By Order of the Board
D F Calow *Secretary*
25 May 1994

To the members of WPP Group plc:

We have audited the financial statements set out on pages 60 to 85, which have been prepared under the historical cost convention and the accounting policies set out on pages 60 to 61.

Respective responsibilities of directors and auditors

As described on page 53 the Company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group at 31 December 1993 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen
Chartered Accountants and Registered Auditors
London
25 May 1994

Accounting policies

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

1 Basis of accounting

The financial statements 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 financial statements include the results of the Company and all its subsidiary undertakings made up to the same accounting date. The results of subsidiary undertakings acquired or disposed of during the year are included or excluded from the profit and loss account from the date of acquisition or disposal.

The Group's share of the profits less losses of associated undertakings is included in the consolidated profit and loss account and the investments are shown in the Group balance sheet at the Group's share of the net assets of these companies less provisions for permanent diminution in value. The Group's share of the profits less losses 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. The profit or loss on the disposal or termination of a business includes goodwill previously written off to reserves.

4 Intangible fixed assets

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

5 Tangible fixed assets

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

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

Freehold buildings - 2% per annum

Leasehold land & buildings - over the term of the lease

Fixtures, fittings & 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.

6 Investments

Investments in subsidiary undertakings are stated in the Company's financial statements at cost less amounts written off for any 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 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. Further details of the actuarial assumptions used are contained in note 23(d) to the financial statements.

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 commission and fees earned in respect of turnover. Turnover and revenue are stated exclusive of VAT, sales taxes and trade discounts.

13 **Translation of foreign currencies**

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

The profit and loss accounts of overseas subsidiary undertakings are translated into pounds sterling at average exchange rates and the year-end net investments in these companies are translated at year-end exchange rates. Exchange differences arising from 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 1993

Notes		1993 £000	1992 £000	1993 $000	1992 $000
1	**Turnover (gross billings)**	**6,029,918**	5,367,139	**9,054,525**	9,477,831
	Revenue	**1,430,704**	1,273,448	**2,148,345**	2,248,782
	Gross profit	**1,209,115**	1,069,610	**1,815,607**	1,888,824
2	Other operating expenses before exceptional items (net)	**(1,099,904)**	(981,769)	**(1,651,616)**	(1,733,706)
3	Exceptional items within operating expenses	**(14,221)**	(17,086)	**(21,354)**	(30,172)
	Total operating expenses (net)	**(1,114,125)**	(998,855)	**(1,672,970)**	(1,763,878)
1	**Operating profit**	**94,990**	70,755	**142,637**	124,946
3	Non-operating exceptional items:				
	Loss or profit on sale or closure (net)	**(10,885)**	(15,397)	**(16,345)**	(27,190)
	Restructuring costs	**-**	(13,500)	**-**	(23,840)
	Total non-operating exceptional items	**(10,885)**	(28,897)	**(16,345)**	(51,030)
	Profit on ordinary activities before interest	**84,105**	41,858	**126,292**	73,916
	Interest receivable	**10,616**	10,759	**15,941**	18,999
4	Interest payable and similar charges	**(40,370)**	(44,849)	**(60,620)**	(79,199)
2	**Profit on ordinary activities before taxation**	**54,351**	7,768	**81,613**	13,716
7	Tax on profit on ordinary activities	**(29,356)**	(17,233)	**(44,081)**	(30,432)
	Profit/(loss) on ordinary activities after taxation	**24,995**	(9,465)	**37,532**	(16,716)
	Minority interests	**(2,067)**	(2,464)	**(3,104)**	(4,351)
	Profit/(loss) for the financial year	**22,928**	(11,929)	**34,428**	(21,067)
8	Preference dividends	**(2,368)**	–	**(3,556)**	–
	Profit/(loss) attributable to ordinary share owners	**20,560**	(11,929)	**30,872**	(21,067)
8	Ordinary dividends	**(5,205)**	–	**(7,816)**	–
	Retained profit/(loss) for the year	**15,355**	(11,929)	**23,056**	(21,067)
	Earnings per share				
9	**Basic earnings/(loss) per Ordinary share**	**4.9p**	(8.0p)	**$0.07**	$(0.14)
9	**Fully diluted earnings per Ordinary share**	**3.4p**	–	**$0.05**	–
	'Headline' earnings per share				
9	**Basic earnings per Ordinary share excluding non-operating exceptional items**	**7.4p**	11.4p	**$0.11**	$0.20
9	**Fully diluted earnings per Ordinary share excluding non-operating exceptional items**	**5.0p**	–	**$0.08**	–

The main reporting currency of the Group is the pound sterling and the financial statements have been prepared on this basis. Solely for convenience, the financial statements set out on pages 62 to 66 are also presented expressed in US dollars using the approximate average rate for the year for the profit and loss account (1993: $1.5016=£1, 1992: $1.7659=£1), the rate in effect on 31 December for the balance sheets (1993: $1.4795=£1, 1992: $1.5140=£1), and a combination of these for the statement of cash flows. 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 prior year profit and loss account, cash flow statement and notes have been restated to reflect the implementation of Financial Reporting Standard 3 (FRS 3). There is no material difference between the results disclosed in the profit and loss account and the historical cost profit or loss as defined by FRS 3. Movements in reserves are set out in note 21.

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

Consolidated balance sheet

As at 31 December 1993

Notes		1993 £000	1992 £000	1993 $000	1992 $000
	Fixed assets				
11	Intangible assets	**350,000**	350,000	**517,825**	529,900
12	Tangible assets	**132,437**	147,627	**195,941**	223,507
13	Investments	**22,055**	19,679	**32,630**	29,794
		504,492	517,306	**746,396**	783,201
	Current assets				
14	Stocks and work in progress	**76,928**	65,777	**113,815**	99,586
15	Debtors	**679,398**	715,253	**1,005,169**	1,082,893
16	Investments	**2,251**	2,535	**3,330**	3,838
	Cash at bank and in hand	**316,906**	287,111	**468,862**	434,686
		1,075,483	1,070,676	**1,591,176**	1,621,003
17	**Creditors:** amounts falling due within one year	**(1,224,679)**	(1,131,540)	**(1,811,913)**	(1,713,152)
	Net current liabilities	**(149,196)**	(60,864)	**(220,737)**	(92,149)
	Total assets less current liabilities	**355,296**	456,442	**525,659**	691,052
18	**Creditors:** amounts falling due after more than one year	**(412,295)**	(579,748)	**(609,990)**	(877,737)
19	**Provisions for liabilities and charges**	**(103,912)**	(118,621)	**(153,738)**	(179,592)
	Net liabilities	**(160,911)**	(241,927)	**(238,069)**	(366,277)
	Capital and reserves				
20	Called up share capital	**61,661**	36,350	**91,227**	55,034
21	Share premium account	**393,456**	323,042	**582,118**	489,086
21	Goodwill write off reserve	**(829,091)**	(856,440)	**(1,507,745)**	(1,296,650)
21	Other reserves	**100,467**	147,717	**148,641**	223,644
21	Profit & loss account	**111,706**	96,351	**446,374**	145,875
	Share owners' funds	**(161,801)**	(252,980)	**(239,385)**	(383,011)
	Minority interests	**890**	11,053	**1,316**	16,734
	Total capital employed	**(160,911)**	(241,927)	**(238,069)**	(366,277)

Signed on behalf of the Board on 25 May 1994:

Directors:

R E Lerwill

M S Sorrell

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

Company balance sheet

As at 31 December 1993

Notes		1993 £000	1992 £000	1993 $000	1992 $000
	Fixed assets				
12	Tangible assets	**363**	236	**537**	357
13	Investments	**763,673**	657,564	**1,129,854**	995,552
		764,036	657,800	**1,130,391**	995,909
	Current assets				
15	Debtors	**284,533**	166,738	**497,920**	252,441
	Cash at bank and in hand	**12,064**	2,310	**17,849**	3,497
		296,597	169,048	**515,769**	255,938
17	**Creditors:** amounts falling due within one year	**(140,334)**	(109,833)	**(284,577)**	(166,287)
	Net current assets	**156,263**	59,215	**231,192**	89,651
	Total assets less current liabilities	**920,299**	717,015	**1,361,583**	1,085,560
18	**Creditors:** amounts falling due after more than one year	**(158,394)**	(54,839)	**(234,343)**	(83,026)
	Net assets	**761,905**	662,176	**1,127,240**	1,002,534
	Capital and reserves				
20	Called up share capital	**61,661**	36,350	**91,227**	55,034
21	Share premium account	**393,456**	323,042	**582,118**	489,086
21	Merger reserve	**299,093**	285,057	**161,405**	431,576
21	Currency translation reserve	**(8,584)**	–	**(12,700)**	–
21	Profit & loss account	**16,279**	17,727	**305,190**	26,838
	Total capital employed	**761,905**	662,176	**1,127,240**	1,002,534

Signed on behalf of the Board on 25 May 1994:

Directors:

R E Lerwill

M S Sorrell

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

Reconciliation of movements in consolidated share owners' funds

For the year ended 31 December 1993

Notes		1993 £000	1992 £000
	Profit/(loss) for the financial year	**22,928**	(11,929)
8	Ordinary and preference dividends payable	**(7,573)**	–
	Preference dividends written back to reserves	**–**	20,598
		15,355	8,669
20	Proceeds of rights issue, net of expenses	**84,895**	–
21	Exchange adjustments on foreign currency net investments	**(32,608)**	(121,053)
21	Foreign exchange arising on conversion of Convertible Cumulative Redeemable Preference shares	**(8,584)**	–
21	Net movement on goodwill write-off reserve	**27,349**	(11,471)
20,21	Other share capital and share premium issued, net of redemptions	**10,830**	138,628
21	Revaluation of tangible and intangible fixed assets	**(6,058)**	235
	Net additions to share owners' funds	**91,179**	15,008
	Opening share owners' funds	**(252,980)**	(267,988)
	Closing share owners' funds	**(161,801)**	(252,980)

Consolidated statement of recognised gains and losses

For the year ended 31 December 1993

Notes		1993 £000	1992 £000
	Profit/(loss) for the financial year	**22,928**	(11,929)
21	Exchange adjustments on foreign currency net investments	**(32,608)**	(121,053)
21	Foreign exchange arising on conversion of Convertible Cumulative Redeemable Preference shares	**(8,584)**	–
21	Revaluation of tangible and intangible fixed assets	**(6,058)**	235
	Total recognised gains and losses (net)	**(24,322)**	(132,747)

Consolidated cash flow statement

For the year ended 31 December 1993

	1993 £000	1992 £000	1993 $000	1992 $000
Reconciliation of operating profit to net cash inflow from operating activities:				
Operating profit	94,990	70,755	142,637	124,946
Depreciation charge	25,830	22,918	38,786	40,471
Loss on sale of tangible fixed assets	260	487	390	860
(Increase)/decrease in stocks and work in progress	(16,332)	6,269	(24,524)	11,070
(Increase)/decrease in debtors	(5,612)	22,567	(8,427)	39,851
Increase/(decrease) in creditors - short term	90,761	(8,866)	136,287	(15,657)
- long term	8,213	330	12,333	583
Decrease in provisions	(5,245)	(5,552)	(7,876)	(9,804)
Share of associated company profits before tax	(7,500)	(5,230)	(11,262)	(9,236)
Net cash inflow from operating activities	185,365	103,678	278,344	183,084
Returns on investments and servicing of finance				
Interest received	10,369	10,589	15,570	18,699
Interest paid	(40,796)	(54,489)	(61,259)	(96,222)
Dividends received from associated undertakings	2,220	1,226	3,334	2,165
Dividends paid	(3,148)	–	(4,727)	–
Dividends paid to minorities	(4,329)	(1,139)	(6,500)	(2,011)
Net cash outflow from returns on investments and servicing of finance	(35,684)	(43,813)	(53,582)	(77,369)
Taxation				
Corporation and overseas tax paid	(26,303)	(17,448)	(39,497)	(30,811)
Investing activities				
Purchase of investments	(2,338)	(294)	(3,511)	(519)
Purchase of tangible fixed assets	(23,892)	(21,148)	(35,876)	(37,345)
Proceeds from sale of tangible fixed assets	903	2,014	1,356	3,557
Proceeds from sale of subsidiaries, net of cash balances sold	24,172	2,717	36,297	4,798
Earnout payments made relating to the acquisition of subsidiary undertakings in prior years	(28,313)	(15,358)	(42,515)	(27,121)
Net cash outflow from investing activities	(29,468)	(32,069)	(44,249)	(56,630)
Net cash inflow before financing	93,910	10,348	141,016	18,274
Financing				
Proceeds from rights issue, net of expenses	84,895	–	127,478	–
Net (reduction)/drawdown of bank loans	(73,557)	48,929	(110,453)	86,404
Repayment of bank loans	(60,158)	(7,412)	(90,333)	(13,089)
Banking syndicate and refinancing costs	(4,935)	(10,979)	(7,410)	(19,388)
Capital element of finance lease payments	(428)	(485)	(643)	(856)
Net cash (outflow)/inflow from financing	(54,183)	30,053	(81,361)	53,071
Increase in cash and cash equivalents excluding the effect of foreign exchange rate effects	39,727	40,401	59,655	71,345
Effect of foreign exchange rate changes on cash and cash equivalents	(2,633)	37,947	(13,428)	(14,300)
Balance of cash and cash equivalents at beginning of year	250,826	172,478	379,751	322,706
Balance of cash and cash equivalents at end of year	287,920	250,826	425,978	379,751

The accompanying notes form an integral part of this statement.

Notes to the consolidated cash flow statement

Analysis of cash and cash equivalents as shown in the consolidated balance sheet	1991 £000	Change in year £000	1992 £000	Change in year £000	**1993 £000**
Cash at bank and in hand	205,478	81,633	287,111	29,795	**316,906**
Bank overdrafts and short term bank loans	(33,000)	(3,285)	(36,285)	7,299	**(28,986)**
Cash and cash equivalents	172,478	78,348	250,826	37,094	**287,920**

Sale or liquidation of businesses	**1993**	1992
Net assets disposed of:	**£000**	£000
Goodwill (note 21)	**53,840**	12,213
Fixed assets (note 12)	**5,599**	665
Trade debtors	**43,340**	1,871
Cash	**7,761**	–
Trade creditors	**(46,630)**	(253)
Other working capital	**7,148**	3,186
Provisions	**(8,767)**	–
Trading losses after effective date of sale or termination	**-**	432
	62,291	18,114
Loss on disposal or liquidation (note 3)	**(10,885)**	(15,397)
Proceeds of sale	**51,406**	2,717
Represented by - cash	**31,933**	2,717
- loan notes and other receivables	**11,082**	–
- assumption of liabilities	**8,391**	–
	51,406	2,717

The businesses sold or liquidated during the year absorbed £1,903,000 from the Group's operating cash flows. They were insignificant in other respects to the Group's cash flow.

Analysis of changes in financing during 1992 and 1993	Share capital and share premium account		Loans and finance lease obligations	
	1993 £000	1992 £000	**1993 £000**	1992 £000
Beginning of year	**359,392**	220,764	**491,560**	507,347
Impact of rights issue	**84,895**	–	**-**	–
Conversion of Convertible Cumulative Redeemable Preference shares	**8,327**	–	**-**	–
Shares issued for non-cash consideration relating to the acquisition of subsidiary undertakings in prior years	**2,503**	1,234	**-**	–
Net (reduction)/drawdown of bank loans	**-**	–	**(73,557)**	48,929
Repayment of bank loans and finance leases	**-**	–	**(60,586)**	(7,897)
Foreign exchange movements on long term borrowings	**-**	–	**11,352**	86,509
Loan notes issued for non-cash consideration relating to the acquisition of subsidiary undertakings in prior years	**-**	–	**3,332**	–
Inception of finance lease contracts	**-**	–	**495**	394
Movements arising from capital restructuring	**-**	143,722	**-**	(143,722)
Capitalised expenditure arising from the issue of Convertible Cumulative Redeemable Preference shares	**-**	(6,328)	**-**	–
End of year	**455,117**	359,392	**372,596**	491,560

The above analysis includes a reduction in the Group's borrowings of £31,933,000, which resulted from the sale of businesses during the year.

Notes to the consolidated profit and loss account

1 **Segment information**

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

Contributions by geographical area to Group turnover and operating profit were as follows:	Turnover 1993 £000	Turnover 1992 £000	Operating profit 1993 £000	Operating profit 1992 £000
United Kingdom	**753,589**	769,904	**17,638**	9,952
United States	**2,850,553**	2,378,620	**42,917**	37,753
Canada	**146,113**	122,595	**2,289**	66
Continental Europe	**1,257,478**	1,265,031	**3,388**	6,764
Rest of the World	**1,022,185**	830,989	**28,758**	16,220
	6,029,918	5,367,139	**94,990**	70,755

There is no significant cross border trading. Of the non-operating exceptional items, net expenses of £1,210,000 (1992: £29,677,000) arose in the United Kingdom, £8,230,000 (1992: net income £780,000) in the United States and £1,445,000 (1992: £nil) in Continental Europe.

The geographical analysis of non-interest bearing assets/(liabilities) of the Group is as follows:	1993 £000	1992 £000
United Kingdom	**53,768**	28,877
United States	**(257,159)**	(162,795)
Canada	**3,600**	13,712
Continental Europe	**35,069**	47,088
Rest of the World	**87,455**	70,962
	(77,267)	(2,156)
Items not allocated in the above geographical analysis:		
Net cash and loans	**(83,644)**	(239,771)
Net liabilities in the consolidated balance sheet	**(160,911)**	(241,927)

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

2 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting):	**1993 £000**	1992 £000
Cost of sales - media payments	**4,599,214**	4,093,691
Cost of sales - direct costs	**221,589**	203,838
Administration and other operating expenses	**1,109,012**	988,061
Other operating income	**(1,608)**	(1,062)
Share of profits of associated undertakings before tax	**(7,500)**	(5,230)

These amounts include:	**1993 £000**	1992 £000
Depreciation of and amounts written off		
- owned tangible fixed assets	**24,901**	21,865
- assets held under finance leases and hire purchase contracts	**929**	1,053
Operating lease rentals		
- plant and machinery	**16,723**	16,620
- property	**92,170**	78,809
Hire of plant and machinery	**1,018**	1,039
Auditors' remuneration	**1,775**	2,574

Amounts of £2,239,000 were charged in 1993 (1992: £1,330,000) by the Group's auditors for non-audit services.

3 Exceptional items

Exceptional items comprise:	**1993 £000**	1992 £000
Within operating expenses (net):		
Severance costs	**14,221**	15,735
Provisions for excess property	**-**	1,351
	14,221	17,086
Non-operating exceptional items:		
Loss on sale or closure of companies	**10,885**	15,397
Restructuring costs	**-**	13,500
	10,885	28,897

The loss on sale or closure of certain subsidiaries includes (non-cash) goodwill written off of £53,840,000 (1992: £12,213,000) for which there is a compensating credit to reserves. Further details of the subsidiaries disposed of can be found in note 22 to the financial statements.

Notes to the consolidated profit and loss account

4 Interest payable and similar charges

	1993 £000	1992 £000
On bank loans and overdrafts, and other loans:		
- repayable within five years, by instalments	**29,446**	33,988
- repayable within five years, not by instalments	**10,251**	8,388
	39,697	42,376
On all other loans	**673**	2,473
	40,370	44,849

5 Directors' emoluments

This information is disclosed within 'Directors' emoluments' in the report of the directors on pages 54 and 55.

6 Staff costs

Emoluments of directors and employees during the year amounted to:	1993 £000	1992 £000
Wages and salaries	**564,634**	510,642
Social security costs	**62,590**	55,875
Other pension costs	**24,637**	22,697
	651,861	589,214

The average weekly number of persons employed by the Group during the year was as follows:	1993 Number	1992 Number
United Kingdom	**3,559**	3,614
United States	**7,135**	7,283
Canada	**666**	747
Continental Europe	**3,798**	3,870
Rest of the World	**5,258**	5,150
	20,416	20,664

Management incentive plans

Key employees of each of the Group's principal operating companies participate in performance-related compensation plans under which a significant portion of their total compensation is directly related to the financial performance of their own company. This includes annual incentive plans which reward the achievement of annual operating targets.

In addition, a limited group of senior operating company executives in the Group participate in long term incentive plans, under which awards are payable in a combination of cash and interests in WPP Group plc Ordinary shares. These payments are based on the achievement of pre-determined levels of operating profit, operating margin targets and staff cost to revenue ratios over rolling 3 year periods. To the extent that future payments are considered to arise as a result of 1993 activity, a charge has been made to the 1993 profit and loss account.

Payments and provisions charged to the profit and loss account in 1993 for annual and long term incentive plans totalled £27,049,000 (1992: £24,583,000).

Tax on profit on ordinary activities

	1993 £000	1992 £000
The tax charge is based on the profit for the year and comprises:		
Corporation tax at 33% (1992: 33%)	**(217)**	–
Deferred taxation	**(867)**	(3,228)
Overseas taxation	**27,306**	17,879
Tax on profits of associate companies	**3,134**	2,582
	29,356	17,233
Effective tax rate on profit before non-operating exceptional items	**45%**	47%

The non-operating exceptional items carry no significant tax charge or credit. The Group's effective tax rate is greater than the United Kingdom rate of 33% for the year due to a significant portion of overseas income being subject to higher levels of taxation while, in the United States, losses after interest expense are not currently fully utilised. The fall in the underlying Group rate of taxation in 1993 is a result of a reduction in the effective rate of tax in Europe.

8 Ordinary and preference dividends

	1993 £000	1992 £000
Preference dividend $0.17 (net) Convertible Cumulative Redeemable Preference shares of $0.10 each	**2,368**	–
Ordinary dividend Interim dividend paid - 0.35p per share (net) (1992: nil)	**1,751**	–
Final dividend proposed - 0.65p per share (net) (1992: nil)	**3,454**	–
	5,205	–

No preference or ordinary dividend was paid in respect of 1992.

Notes to the consolidated profit and loss account

9 **Earnings per Ordinary share**

a) *Earnings per share*

Basic earnings per share have been calculated using earnings of £20,560,000 (1992: loss of £11,929,000) and weighted average shares in issue during the year of 423,300,948 shares (1992: 149,476,320 shares). The weighted average number of shares in 1993 and 1992, and prior year earnings per share have been adjusted to take into account the bonus element of the rights issue (see note 20).

Fully diluted earnings per share have been calculated using earnings of £22,928,000 and weighted average shares in issue during the year of 675,034,381 shares. This allows for full conversion of the Group's remaining Convertible Cumulative Redeemable Preference shares.

b) *Headline earnings per share*

Earnings per share before non-operating exceptional items (headline earnings per share) have been calculated in accordance with the formula published by the Institute of Investment Management and Research. The headline earnings per share attempts to identify an earnings per share figure based on the operating result for the year as a measure of the Company's continuing earnings capacity.

The table below provides a reconciliation from the profit and loss account to earnings used for the calculation of basic headline earnings per share:	**1993 £000**	1992 £000
Profit/(loss) for the year after preference dividends	**20,560**	(11,929)
Loss on sale or closure of companies	**10,885**	15,397
Restructuring costs	**–**	13,500
Headline earnings	**31,445**	16,968
Basic headline earnings per share	**7.4p**	11.4p
Fully diluted headline earnings per share	**5.0p**	–

c) At 31 December 1993 there were 520,470,820 Ordinary shares in issue.

d) The Group has acquired companies in prior years on terms which may give rise to further consideration payable in the form of shares depending on their profit performance (note 23). 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.

10 **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 £1,448,000 (1992: profit of £36,099,000) in respect of the Company.

Notes to the consolidated and company balance sheets

11 **Intangible fixed assets**

	1993 £000	1992 £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. In the course of this valuation the directors, both in 1992 and 1993, consulted their advisers, The Henley Centre and Samuel Montagu & Co. Limited.

12 **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	18,474	95,291	127,765	241,530
Additions	202	5,892	17,901	23,995
Disposals	(2,053)	(1,109)	(11,155)	(14,317)
Additional subsidiaries, previously related companies (note 13)	–	1,190	1,895	3,085
Revaluations	(4,985)	(1,380)	–	(6,365)
Write off to exceptional items	–	(2,555)	(10,118)	(12,673)
Exchange adjustments	137	344	(1,917)	(1,436)
End of year	11,775	97,673	124,371	233,819
Depreciation:				
Beginning of year	1,973	22,498	69,432	93,903
Charge	387	5,759	19,684	25,830
Disposals	(107)	(982)	(10,207)	(11,296)
Additional subsidiaries, previously related companies (note 13)	–	1,036	1,346	2,382
Revaluations	(241)	(66)	–	(307)
Write off to exceptional items	–	(1,338)	(5,736)	(7,074)
Exchange adjustments	42	(522)	(1,576)	(2,056)
End of year	2,054	26,385	72,943	101,382
Net book value:				
End of year	9,721	71,288	51,428	132,437
Beginning of year	16,501	72,793	58,333	147,627

Leasehold land and buildings comprises £2,183,000 (1992: £2,950,000) held on long leasehold and £69,105,000 (1992: £69,843,000) held on short leasehold. Leased assets (other than leasehold property) included above have a net book value of £2,675,000 (1992: £2,937,000).

Fixtures, fittings and equipment are shown at cost. In 1992, land and buildings included certain properties held at a professional valuation, performed in 1989, of £10,894,000 (historic net book value: £4,836,000). During 1993, these properties were revalued downwards by the Directors based on a directors' valuation of the properties concerned.

Notes to the consolidated and company balance sheets

12 **Tangible fixed assets** *continued*

b) Company

The movement in the year was as follows:	Short leasehold buildings £000	Fixtures, fittings & equipment £000	Total £000
Cost or valuation:			
Beginning of year	141	764	905
Additions	27	199	226
Disposals	–	(27)	(27)
End of year	168	936	1,104
Depreciation:			
Beginning of year	73	596	669
Charge	16	67	83
Disposals	–	(11)	(11)
End of year	89	652	741
Net book value:			
End of year	79	284	363
Beginning of year	68	168	236

13 **Fixed asset investments**

	Group			Company
The following are included in the net book value of fixed asset investments:	Associated undertakings £000	Other investments £000	Total £000	Subsidiary undertakings £000
Beginning of year	18,288	1,391	19,679	657,564
Additions	1,383	–	1,383	106,109
Disposals	(835)	–	(835)	–
Share of retained profits of associated undertakings net of dividends received	2,146	–	2,146	–
Exchange adjustments	(350)	32	(318)	–
End of year	20,632	1,423	22,055	763,673

During the year the Group's investment in certain related companies increased to above 50%. As a result, these companies' assets and liabilities are now consolidated. The additional consideration paid for the change in investment, and the net assets of the companies in question, is not material.

Included within Company additions is £38,465,000 in respect of capital contributions to certain subsidiary undertakings of the Group following the receipt of proceeds of the rights issue completed in April 1993. The balance of the Company additions principally represents amounts arising from the capitalisation of intercompany loans.

Details concerning the Company's principal operating subsidiary undertakings, related undertakings and divisions are provided in note 24.

14 Stocks and work in progress

The following are included in the net book value of stocks and work in progress:	**1993 £000**	1992 £000
Raw materials and consumables	**605**	522
Work in progress	**73,679**	62,200
Finished goods and goods for resale	**2,644**	3,055
	76,928	65,777

15 Debtors

	Group		Company	
The following are included in debtors:	**1993 £000**	1992 £000	**1993 £000**	1992 £000
Amounts falling due within one year:				
Trade debtors	**539,406**	583,451	**-**	–
Amounts owed by subsidiary undertakings	**-**	–	**95,827**	163,015
VAT and sales taxes recoverable	**9,211**	6,186	**-**	559
ACT recoverable	**3,647**	2,581	**2,199**	954
Corporate income taxes recoverable	**6,827**	3,239	**-**	–
Other debtors	**41,250**	57,758	**4,228**	937
Prepayments and accrued income	**43,224**	42,951	**702**	341
	643,565	696,166	**102,956**	165,806
Amounts falling due after more than one year:				
Amounts owed by subsidiary undertakings	**-**	–	**181,577**	–
Other debtors	**26,326**	13,537	**-**	932
Prepayments and accrued income	**9,507**	5,550	**-**	–
	35,833	19,087	**181,577**	932
Total debtors	**679,398**	715,253	**284,533**	166,738

16 Current asset investments

The following are included in the net book value of current asset investments:	**1993 £000**	1992 £000
Unlisted investments, at cost	**2,251**	2,535

Notes to the consolidated and company balance sheets

17 **Creditors: amounts falling due within one year**

The following amounts are included in creditors falling due within one year:	Group 1993 £000	Group 1992 £000	Company 1993 £000	Company 1992 £000
Bank loans and overdrafts (note 18)	**72,358**	36,285	**16,301**	–
Unsecured loan notes	**6,589**	2,054	**4,561**	72
Trade creditors	**757,176**	714,880	**–**	–
Amounts due to subsidiary undertakings	**–**	–	**99,626**	88,573
Taxation and social security	**65,465**	55,057	**1,870**	–
Dividends	**4,425**	–	**4,425**	–
Due to vendors of acquired companies	**17,695**	23,367	**–**	–
Other creditors and accruals	**264,377**	257,889	**13,551**	21,188
Deferred income	**36,594**	42,008	**–**	–
	1,224,679	1,131,540	**140,334**	109,833

Included within bank loans and overdrafts is £43,372,000, representing the amount drawn down against the Group's short term bridge loan facility which falls due for repayment in July 1994. £20,730,000 of this amount was repaid in February 1994, and the balance will be repaid by the due date.

18 **Creditors: amounts falling due after more than one year**

The following amounts are included in creditors falling due after more than one year:	Group 1993 £000	Group 1992 £000	Company 1993 £000	Company 1992 £000
Bank loans	**316,017**	480,198	**14,422**	24,545
Unsecured loan notes	**5,586**	8,345	**–**	1,170
Amounts due to subsidiary undertakings	**–**	–	**143,972**	18,106
Corporate income taxes payable	**46,118**	42,950	**–**	11,018
Due to vendors of acquired companies	**–**	1,793	**–**	–
Other creditors and accruals	**44,574**	46,462	**–**	–
	412,295	579,748	**158,394**	54,839

The Group is party to a Consolidated Credit Agreement with its banking syndicate which covers the majority of its borrowings. These borrowings were assumed primarily on the acquisitions of JWT Group, Inc. and The Ogilvy Group, Inc., and are repayable in instalments of $10 million on 31 December 1995, $30 million on 30 June 1996, $35 million on 31 December 1996 and the balance on 30 June 1997. The Group's syndicated term, syndicated working capital and other borrowings drawn down under the agreement at 31 December 1993 totalled $515.5 million.

The Credit Agreement also requires repayment in July 1994 of any drawdowns made against a $150 million short term bridge loan facility. A substantial part of the borrowings made under this facility was repaid during 1993 from the proceeds of the rights issue in April 1993, and from proceeds received on the sale of certain subsidiaries. Further details in respect of these transactions can be found in notes 20 and 22 respectively.

Interest on the majority of the Group's borrowings is payable at a variable rate linked to US$ LIBOR and, for a significant proportion of borrowings, is capped for the next three to five years.

Borrowings under the Credit Agreement are secured by pledges of the issued share capital of the majority of the Group's subsidiaries, and are governed by certain financial covenants based on the results and financial position of the Group.

The Group's unsecured loan notes are repayable during the years 1994 to 1997. Certain of the notes carry warrants to subscribe for Ordinary shares of the Company (note 20).

18 **Creditors: amounts falling due after more than one year** *continued*

	Group		Company	
The following is an analysis of all bank loans and unsecured loan notes by year of payment:	**1993 £000**	1992 £000	**1993 £000**	1992 £000
Within one year	**78,947**	38,339	**20,862**	72
Within 1 - 2 years	**10,609**	25,474	**-**	1,599
Within 2 - 5 years	**309,301**	458,497	**14,422**	24,116
Over 5 years - by instalments	**1,693**	4,572	**-**	–
	400,550	526,882	**35,284**	25,787

19 **Provisions for liabilities and charges**

	Group	
Provisions for liabilities and charges comprise:	**1993 £000**	1992 £000
Deferred taxation	**20,829**	35,843
Property	**21,491**	31,908
Pension and other	**61,592**	50,870
	103,912	118,621

Deferred tax has been provided to the extent that the directors, on the basis of reasonable assumptions and the intentions of management, have concluded that it is probable that liabilities will crystallise. There is no material unprovided deferred tax at 31 December 1993 and no provision is made for tax that would arise on the remittance of overseas earnings. At 31 December 1993, the provision for deferred taxation comprises current timing differences of £4,701,000 (1992: £1,750,000) and non-current timing differences of £16,128,000 (1992: £34,093,000).

Property provisions comprise amounts set aside in respect of certain property leases for which the Group is carrying commitments in excess of foreseeable requirements.

Pension and other provisions include £28,673,000 (1992: £33,700,000) in respect of pension obligations. The majority of these provisions arise in the United States. Unfunded pension costs are provided for in the Group's balance sheet.

Notes to the consolidated and company balance sheets

19 **Provisions for liabilities and charges** *continued*

The movement in the year on Group provisions comprises:	Group Deferred taxation £000	Property £000	Pension and other £000
Beginning of year	35,843	31,908	50,870
Charged in profit and loss account:			
(Released)/charged	(867)	–	12,124
(Released)/charged in exceptional items	(3,929)	952	(4,073)
Utilised	(946)	(10,673)	(6,696)
Additional subsidiaries, previously related companies	–	–	902
Reclassifications	(10,310)	(1,454)	8,681
Exchange adjustments	1,038	758	(216)
End of year	20,829	21,491	61,592

Amounts utilised include £3.6 million relating to provisions established on the acquisition of The Ogilvy Group, Inc.

During the year property provisions amounting to £11.9 million established on the acquisition of The Ogilvy Group, Inc. were reallocated to other properties within the Group for which similar provisions were considered necessary. In addition, deferred tax provisions established on the acquisition of The Ogilvy Group, Inc. of £10.3 million were reallocated against other potential tax liabilities, with a reclassification of these balances from deferred taxation to other provisions and to creditors due in more than one year.

20 **Called up share capital**

	1993 £	1992 £
Authorised:		
799,678,000 (1992: 799,678,000) Ordinary shares of 10p each	**79,967,800**	79,967,800
204,606,260 (1992: 256,074,710) Convertible Cumulative Redeemable Preference shares of $0.10 each	**10,828,593**	13,552,512
51,468,450 (1992: nil) Unclassified shares of $0.10 each	**2,723,919**	–
5,000 (1992: 5,000) "A" Ordinary Convertible shares of 10p each	**500**	500
	93,520,812	93,520,812
Allotted, called up and fully paid:		
520,470,820 (1992: 238,196,368) Ordinary shares of 10p each	**52,047,082**	23,819,637
181,647,764 (1992: 236,758,501) Convertible Cumulative Redeemable Preference shares of $0.10 each	**9,613,536**	12,530,220
Nil (1992: nil) Unclassified shares of $0.10 each	**–**	–
5,000 (1992: 5,000) "A" Ordinary Convertible shares of 10p each	**500**	500
	61,661,118	36,350,357

20 **Called up share capital** *continued*

Ordinary shares

During the year the Company allotted the following Ordinary shares:

As part of the ordinary business of the Company:

- 25,030,210 Ordinary shares with an aggregate nominal value of £2,503,021 at an aggregate premium of £14,036,492 in further consideration for the acquisition of subsidiary undertakings.

As part of the rights issue:

- 195,397,300 Ordinary shares with an aggregate nominal value of £19,539,730 at an aggregate premium of £65,355,319 (net of issue expenses) in respect of the rights issue.

As part of the redemption of Convertible Cumulative Redeemable Preference shares:

- 61,846,937 Ordinary shares with an aggregate nominal value of £6,184,694 were issued to the banking syndicate on the conversion of 55,110,737 Convertible Cumulative Redeemable Preference shares.

Rights issue

On 8 April 1993, the Group completed a rights issue of 4 new Ordinary shares for every 5 Ordinary shares previously held and 4 new Ordinary shares for every 5 warrants previously held at a price of 45p per share. This raised approximately £85 million, net of expenses, through the issue of 195,397,300 new Ordinary shares. The majority of the proceeds of the rights issue were used in partial repayment of amounts drawn under the $150 million short term bridge loan facility (note 18) and the balance used to provide additional working capital.

Convertible Cumulative Redeemable Preference (CCRP) shares

During the year 55,110,737 CCRP shares were converted into 61,846,937 Ordinary shares.

As part of the capital restructuring in 1992, the Company allotted 236,758,501 CCRP shares with an aggregate nominal value of £12,530,220 at an aggregate premium of £129,542,881. These shares were convertible at the option of the owners at any time up to and including 31 December 2001 at the rate of one Ordinary share for each CCRP share held. Following the rights issue completed in April 1993, the conversion terms of the CCRP shares have been adjusted. The new conversion rate is 1.122 Ordinary shares for each CCRP share held.

The terms of issue of the CCRP shares specify that any Ordinary shares arising on conversion of CCRP shares cannot be sold for one year from the date of allotment of the CCRP shares, and, in addition, between the first and second anniversaries of allotment, only a maximum of 25% can be sold. On 2 September 1993, 51,468,448 (21.7% of the total originally allotted) of the CCRP shares were converted into 57,759,455 Ordinary shares, and on 21 October 1993 a further 3,642,289 CCRP shares (1.5% of the total originally allotted) were converted into 4,087,487 Ordinary shares.

The Company may redeem the CCRP shares, subject to certain conditions contained in the Company's Articles of Association, at any time up to 30 June 2007, at which date all outstanding shares will be redeemed. The premium payable on the redemption price per share of $1.1337 amounts to 5% in the first two years since issue, reducing by half of one per cent in each subsequent year. It is not anticipated currently that the Group will be required to redeem the shares, given the current economic outlook and share price.

Notes to the consolidated and company balance sheets

20 **Called up share capital** *continued*

The CCRP shares carry a dividend entitlement based on dividends paid on the Company's Ordinary shares, with a gross yield to UK tax residents of a minimum of 2% and a maximum of 6% per annum of the issue price.

Under Financial Reporting Standard 4 (FRS 4), 'Capital Instruments', the share capital and share premium relating to the CCRP shares in issue would be classified as non-equity interests within share owners' funds. Since the application of FRS 4 is not yet mandatory, no re-analysis of reserves has been made as the directors believe that materially all CCRP shares will be converted into Ordinary shares during 1994. Total share capital and share premium in respect of the outstanding CCRP shares at 31 December 1993 amounted to £108,987,000 (1992: £142,054,000).

Unclassified shares

Provisions in the Company's Articles of Association concerning CCRP shares allow the directors to redesignate the reduction in authorised CCRP share capital following their conversion into Ordinary shares as authorised shares of another class. Consequently, on conversion of CCRP shares during 1993, share capital was authorised for 55,110,737 Unclassified shares of $0.10 each at a nominal value of £2,916,684.

"A" Ordinary Convertible shares

The "A" Ordinary Convertible shares were issued to the vendors of a company acquired in 1986. They were convertible into Ordinary shares of the Company in accordance with the Company's Articles of Association, the number of Ordinary shares to be allotted on their conversion being based on the profits attained by the acquired company in the period up to 31 May 1992.

The "A" Ordinary Convertible shares were not converted because appropriate profit levels were not attained by the relevant company. The Company intends to invite share owners to approve the conversion at par of the "A" Ordinary Convertible shares into Ordinary shares at the Annual General Meeting.

Warrants

5,071,025 subscription warrants are in issue, each of which carries the right to subscribe for one Ordinary share of the Company on 30 June in each of the years 1993 to 1996 inclusive at a subscription price of 1000p per share. Additionally, certain of the Group's unsecured loan notes carry warrants, which expire on 16 April 1995, to subscribe for 875,000 Ordinary shares of the Company at a price of 890p per share.

Share options

As at 6 May 1994, options have been granted under the WPP Executive Share Option Scheme over a total of 14,200,685 (1992: 11,159,068 as adjusted for rights issue) Ordinary shares, exercisable between 1994 and 2003 at prices per share ranging from 29.5p to 647p.

21 Reserves

a) Group *Movements during the year were as follows:*	Share premium account £000	Goodwill write off reserve £000	Other reserves £000	Profit & loss account £000
Balance at beginning of year	323,042	(856,440)	147,717	96,351
Share premium arising on shares issued in respect of the rights issue, net of expenses of issue	65,356	–	–	–
Share premium and foreign exchange arising on the conversion of Convertible Cumulative Redeemable Preference shares net of expenses of issue	5,058	–	(8,584)	–
Premium on shares issued or converted during the year in further consideration for the acquisition of subsidiary undertakings (note 20)	–	14,036	–	–
Write off of goodwill arising on consolidation in the year (note 22)	–	(40,527)	–	–
Write back of goodwill to non-operating exceptional items on sale of subsidiaries	–	53,840	–	–
Currency translation movement	–	–	(32,608)	–
Movement on revaluation reserve in year	–	–	(6,058)	–
Retained profit for the financial year	–	–	–	15,355
Balance at end of year	393,456	(829,091)	100,467	111,706

Other reserves at 31 December 1993 comprise: capital reserve £1,849,000 (1992: £1,849,000); currency translation deficit £76,382,000 (1992: £35,190,000); and revaluation reserve £175,000,000 (1992: £181,058,000). Cumulative goodwill resulting from acquisitions which has been written off to the Goodwill write off reserve, net of goodwill relating to disposals transferred to the profit and loss account, amounts to £1,128 million.

The terms of issue of CCRP shares require that they are revalued at current rates of exchange prior to conversion. Exchange differences arising upon the revaluation of CCRP shares converted in the year have been transferred to the currency translation reserve in the Company's financial statements.

In 1987 the balance on the share premium account amounting to £211,090,000 was cancelled under court sanction and transferred, pursuant to an undertaking given to the court, to a special non-distributable reserve. On 19 April 1994 the Company was granted leave by the court to vary the terms of the undertaking, allowing £190,000,000 to be transferred from the special reserve to distributable reserves, with the remaining balance to be transferred to distributable reserves upon satisfaction of certain conditions laid down in the revised undertaking. At 31 December 1993, the special reserve has been disclosed below within the merger reserve for convenience.

b) Company *Movements during the year were as follows:*	Share premium account £000	Merger reserve £000	Currency translation reserve £000	Profit & loss account £000
Balance at beginning of year	323,042	285,057	–	17,727
Share premium arising on shares issued in respect of the rights issue, net of expenses of issue	65,356	–	–	–
Share premium and foreign exchange arising on the conversion of Convertible Cumulative Redeemable Preference shares net of expenses of issue	5,058	–	(8,584)	–
Premium on shares issued or converted during the year in further consideration for the acquisition of subsidiary undertakings (note 20)	–	14,036	–	–
Retained profit for the financial year (note 10)	–	–	–	(1,448)
Balance at end of year	393,456	299,093	(8,584)	16,279

Notes to the consolidated and company balance sheets

22 **Acquisitions and disposals**

The Group did not make any material acquisitions during 1993. Further amounts paid either in cash or in share capital in respect of earlier acquisitions gave rise to goodwill of £40,527,000 (note 21).

The Group made the following significant disposals during the year:

Name of company	Seiniger Advertising, Inc.	Fallon McElligott, Inc.	Scali, McCabe, Sloves, Inc. and certain subsidiary undertakings
Activity	Motion picture advertising	Media advertising	Media advertising
Date of sale	9 September 1993	21 October 1993	7 December 1993
Share of net assets/(liabilities) at date of sale	£(6.3) million	£2.6 million	£(33.3) million
Net profit/(loss) in 1993 to date of sale	£0.6 million	£1.0 million	£(2.1) million
Consideration on sale	£4.6 million	£9.7 million	£37.1 million

All of the above sales were made as part of the Group's continuing process of improving its capital structure and liquidity. Proceeds from the sales have been used in part to reduce the Group's borrowings, and to provide additional working capital. The consideration includes £9,723,000 million in the form of loan notes.

Further details of the impact of these sales on the Group's results are included in the notes to the consolidated cash flow statement.

23 **Guarantees and other financial commitments**

a) Capital commitments

	Group	
	1993	1992
At the end of the year, capital commitments were:	**£000**	£000
Contracted for but not provided for	**319**	312
Authorised but not contracted for	**311**	368
	630	680

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 additional payments which may be payable in respect of all such subsidiary undertakings, including amounts accrued in the balance sheet at 31 December 1993, would be:

	Payable in		**1993**	1992
	Shares	Cash	**Total**	Total
	£000	£000	**£000**	£000
Within 1 year from 31 December 1993	10,378	18,546	**28,924**	39,926
Within 2 - 5 years	3,685	14,948	**18,633**	38,063
	14,063	33,494	**47,557**	77,989

The above analysis is calculated at 1993 average exchange rates and 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.

23 **Guarantees and other financial commitments** *continued*

In the opinion of the directors, there should be no reduction in the net assets of the Group over this period, taking into account only profits from those companies whose vendors are entitled to receive future payments. The Group's cash flow projections for these companies for the same period indicate a net cash generation after taxation considerably in excess of these maximum contingent cash payments.

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

c) Operating lease commitments

The Group has entered into non-cancellable leases in respect of plant and machinery. The total annual rental for 1993 was £16,723,000 (1992: £16,620,000). 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 1993 was £92,170,000 (1992: £78,809,000). 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.

	Group			
	Plant and machinery		Property	
The minimum projected annual rentals payable in the following years under the foregoing leases will be as follows:	**1994 £000**	1993 £000	**1994 £000**	1993 £000
In respect of operating leases which expire:				
- within 1 year	**3,765**	4,415	**7,601**	8,289
- within 2 - 5 years	**8,908**	12,333	**31,392**	35,218
- after 5 years	**506**	122	**54,057**	51,986
	13,179	16,870	**93,050**	95,493

d) Pension arrangements

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

	Group	
The Group's pension costs are analysed as follows:	**1993 £000**	1992 £000
Defined contribution schemes	**20,473**	17,158
Defined benefit schemes	**4,161**	5,539
	24,634	22,697

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 8%, salary increases would be between 4% and 8% and pension increases would be 4%. The market value of plan assets totalled £91 million and the actuarial value of the assets was sufficient to cover approximately 116% of the benefits which had accrued to members after allowing for expected future increases in salaries.

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

Notes to the consolidated and company balance sheets

24 **Principal operating subsidiary undertakings and divisions**

The Company's principal subsidiary undertakings, related undertakings and divisions at 31 December 1993 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
The Futures Group (20%)	*Strategic Marketing Consultancy*	USA
Media Advertising		
Cole & Weber	*Media Advertising*	USA
Conquest Europe/Lansdown Conquest	*Media Advertising*	Italy/England
J. Walter Thompson Company	*Media Advertising*	USA
Ogilvy & Mather Worldwide	*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
The Wexler Group	*Lobbying and Government Relations*	USA
Market Research		
Millward Brown International	*Market Research*	England
MRB Group	*Market Research*	England
Research International	*Market Research*	England
Non-Media Advertising		
Coley Porter Bell*	*Brand and Corporate Identity Design*	England
Business Design Group/McColl	*Interior Design, Architecture and Graphic Design*	England
Oakley Young Associates	*Point-of-sale, Graphic and Retail Design*	England
SampsonTyrrell	*Corporate and Brand Identity Design*	England
SBG Partners	*Packaging and Corporate Identity Design*	USA
WalkerGroup/CNI	*Retail Architecture, Interior and Graphic Design*	USA
VAP Group	*Graphic Design*	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

24 **Principal operating subsidiary undertakings and divisions** *continued*

Specialist Communications		
A Eicoff & Co.	*Direct Marketing*	USA
Anspach Grossman Portugal	*Corporate Identity*	USA
Brouillard Communications	*Business to Business Advertising*	USA
EWA Ltd*	*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
Primary Contact	*Business, Finance and Recruitment Advertising*	England
The RTC Group	*Database management*	USA
Ferguson Communications Group	*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

* Directly held subsidiaries

Non-coterminous year-ends

Millward Brown International was acquired on terms whereby further consideration is payable based on the audited profits of Millward Brown International over the five years ending 31 March 1994; accordingly the financial year-end has not been changed. Japan Market Research Bureau has a year-end of 31 May for commercial reasons. The 1993 Group financial statements include accounts in respect of both companies prepared for the year ended 31 December 1993.

The Group 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 Group companies and do not otherwise trade.

25 **Class 4 transaction waivers**

During 1993, The London Stock Exchange granted waivers from its normal Class 4 requirements in respect of the sales of the Group's interests in Seiniger Advertising, Inc. and Fallon McElligott, Inc. Seiniger Advertising Inc. was sold to Mr Tony Seiniger for consideration consisting of cash of $4.9 million and loan notes of $2.0 million. Fallon McElligott, Inc. was sold to F M Acquisition Corp. for consideration consisting of cash of $10.0 million and loan notes of $4.6 million. Details relating to these sales are included in note 22.

In addition, a waiver was granted in respect of a transaction between the Company and Mr Luis Bassat, a director of Bassat Ogilvy & Mather S.A., a company which provides media advertising services in Spain. This transaction included a matching put and call option agreement between the Company and Mr Bassat to acquire the latter's minority share ownership in Bassat Ogilvy & Mather S.A. The transaction replaced an existing option agreement and includes options that can be exercised at any date in the future.

At 31 December 1993, Mr Bassat's share ownership in Bassat Ogilvy & Mather S.A. was 20%. Consideration payable, in cash, to Mr Bassat upon exercise of the option will be calculated by reference to a formula based on the profits after tax of Bassat Ogilvy & Mather S.A. and its net assets. Profits after tax for the year ended 31 December 1993 and the net assets at that date of Bassat Ogilvy & Mather S.A. were £2,667,000 and £2,113,000 respectively. The waiver has been granted subject to the maximum consideration payable not exceeding £9.4 million.

Share owners' information

Financial calendar

- The 1993 final dividend will be paid on 18 July 1994 to share owners on the register at 16 June 1994.
- Interim statements for half-years ending 30 June are issued in August.
- Interim dividends are paid in November.
- Preliminary announcements of results for financial years ending 31 December are issued in March.
- Annual reports are posted to share owners in May.
- Annual general meetings are held in London in June.

Share price

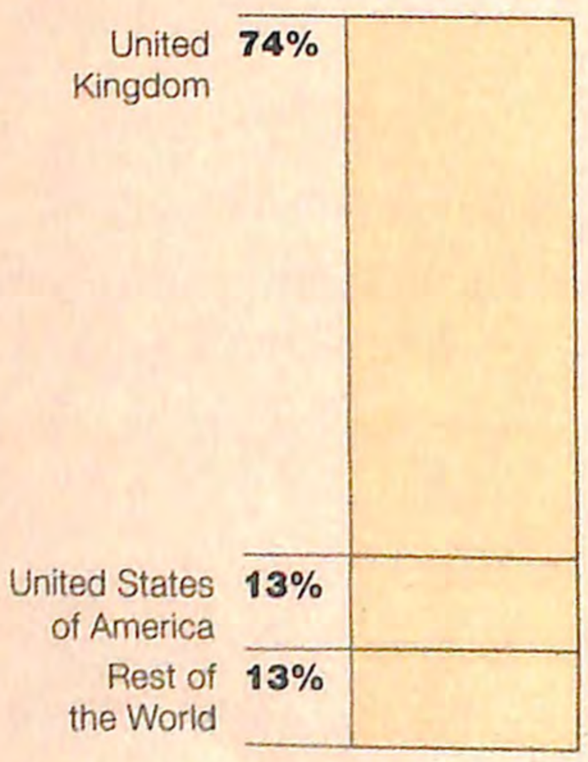
The mid market price of the shares was as follows:	31 December **1993**	1992
Ordinary 10p share	**89p**	44p
Share warrants	**5p**	4p

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

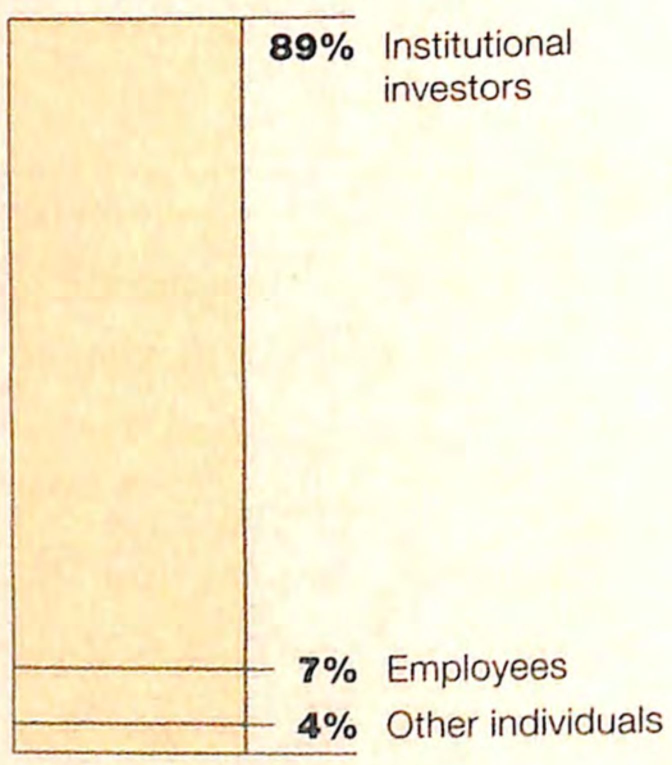
Access numbers

Topic	
Ordinary	52945
Warrants	52946
NASDAQ	WPPGY
Reuters 2000	
Ordinary	WPPL.L
Warrants	WPPLWs.L

Share owners by geography



Share owners by type



Registrar and transfer office

National Westminster Bank plc
PO Box 82
Caxton House
Redcliffe Way
Bristol BS99 7NH

Reclaiming income tax on dividends

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

Capital gains tax

The market value of an Ordinary share at 31 March 1982 was 39p. Since that date rights issues have occurred in September 1986, August 1987 and March 1993.

For capital gains tax purposes the acquisition cost of Ordinary shares is adjusted to take account of the rights issues. Since any adjustments will depend on individual circumstances, share owners are recommended to consult their professional advisers.

American depositary receipts (ADRs)

Citibank N.A.
111 Wall Street
5th Floor
New York NY 10043
USA

Registered office

Pennypot Industrial Estate
Hythe
Kent CT21 6PE

The company's registered number is 1003653.

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