WPP Group plc

Annual Report and Accounts 1989

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

CONTENTS

STRATEGIC SERVICE VISION

To be *the* major multi-national marketing services company. To service the increasingly complex and international needs of our clients – the major national and multi-national companies.

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

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

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

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

To increase earnings per share by at least 20% per annum through organic growth, including improvement in market share and profit margins.

To enhance this growth by acquiring companies that fit our strategic service vision and that can be acquired on financial terms that enhance earnings per share.

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

To pay out one-third of after-tax earnings in dividends to shareholders.

Progress So Far

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

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

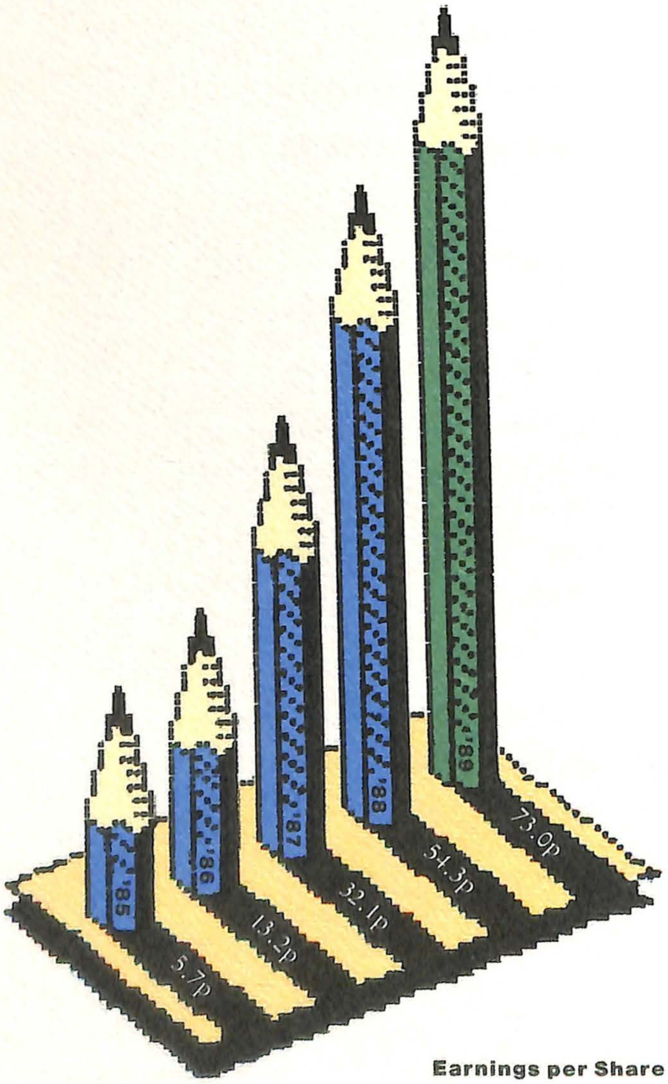
1988 was spent consolidating our operations worldwide and addressing functional or geographic weaknesses (opportunities) through 'in-fill' acquisitions or start-ups.

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

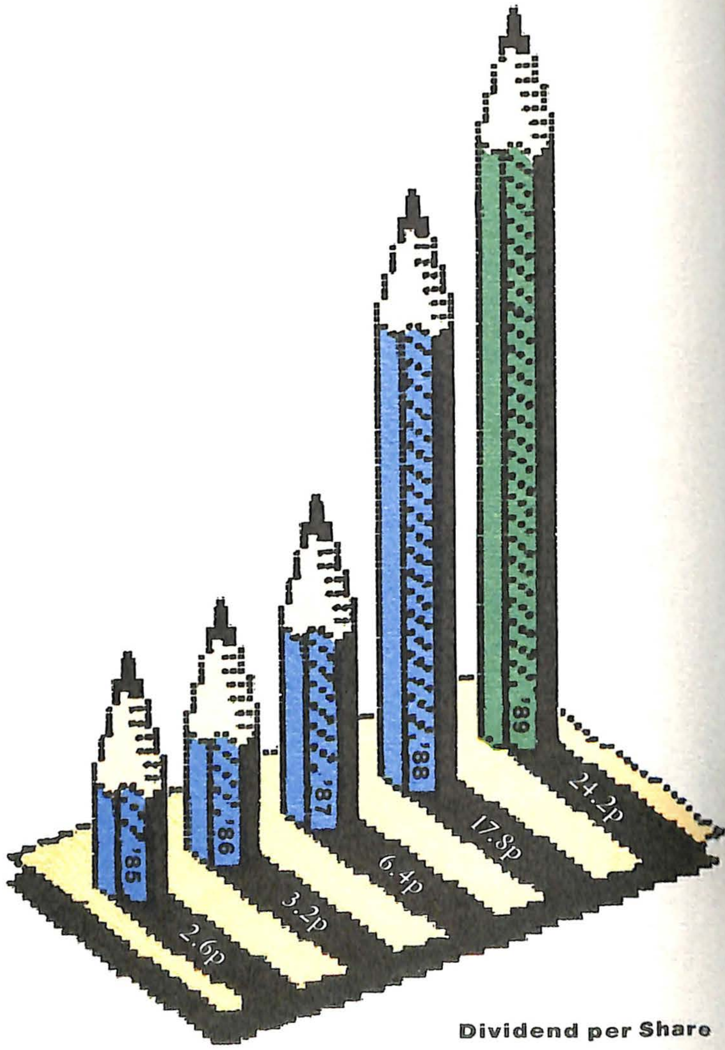
RESULTS IN BRIEF

	1989 £000	1988 £000	% Increase
Turnover	4,406,898	2,251,306	96
Revenue	1,005,453	547,129	84
Operating Profit	102,482	51,436	99
Profit before Taxation	75,039	40,318	86
Profit after Taxation	40,507	21,388	89
Profit attributable to the Ordinary Shareholders	29,788	21,122	41
Earnings per 10p Ordinary Share	73.0p	54.3p	34
Earnings per ADS	$2.38	$1.93	23
Dividend per 10p Ordinary Share	24.2p	17.8p	36
Dividend per ADS	$0.79	$0.63	25
Operating Margins*	10.2%	9.7%	–
Pre-Tax Margins*	7.5%	6.4%	–

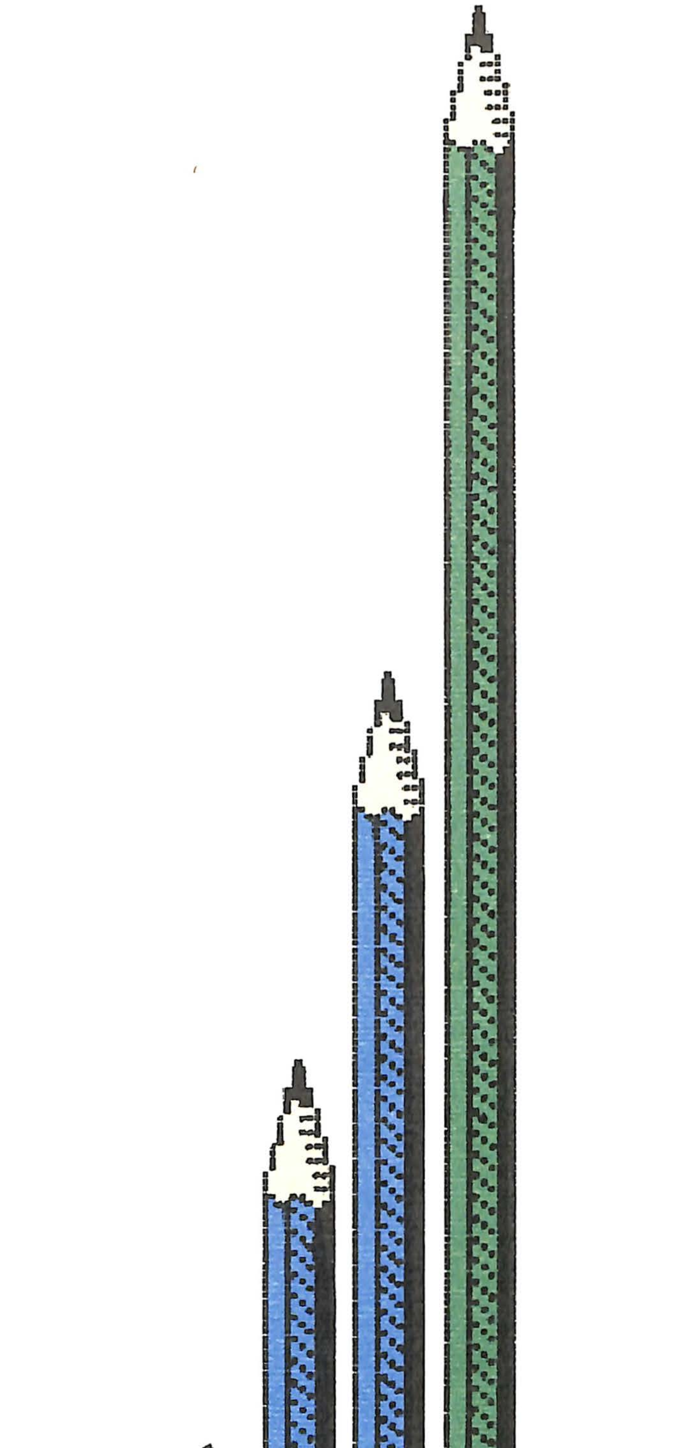
Pro-forma Basis



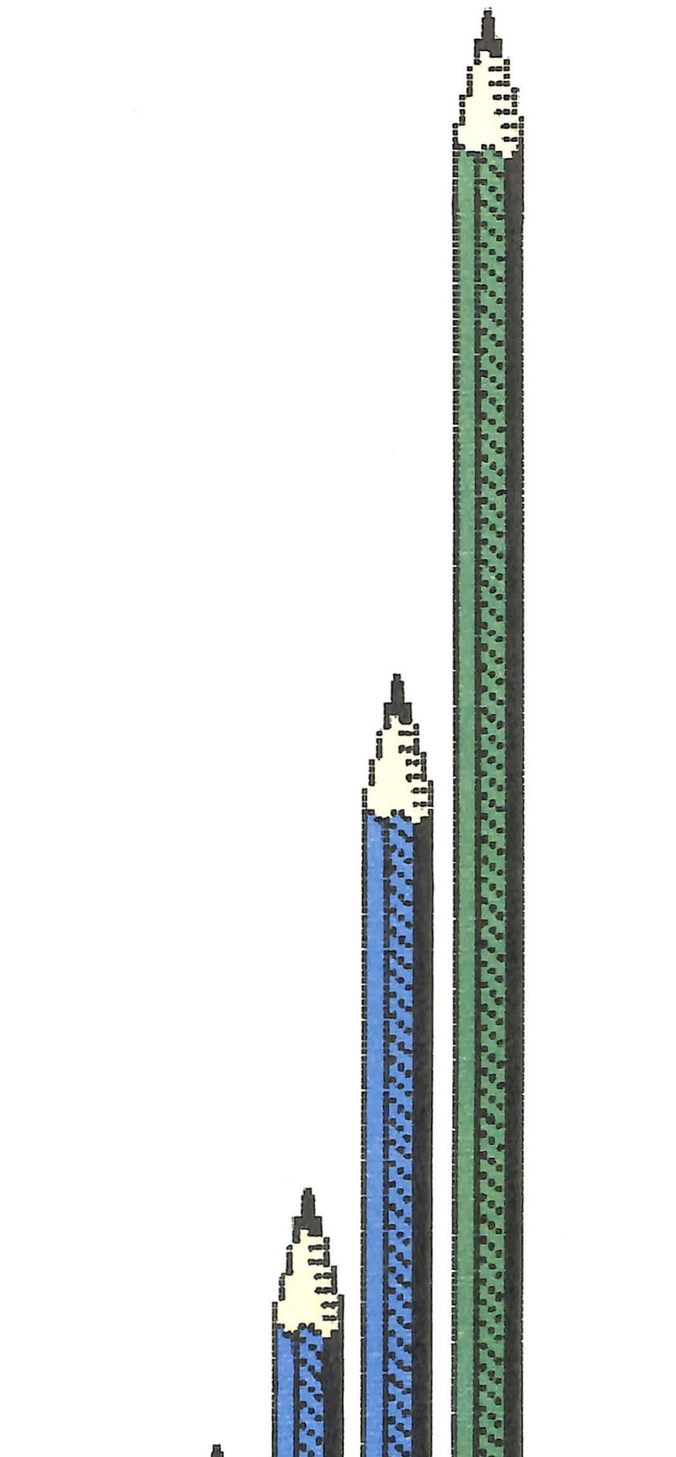
Earnings per Share



Dividend per Share



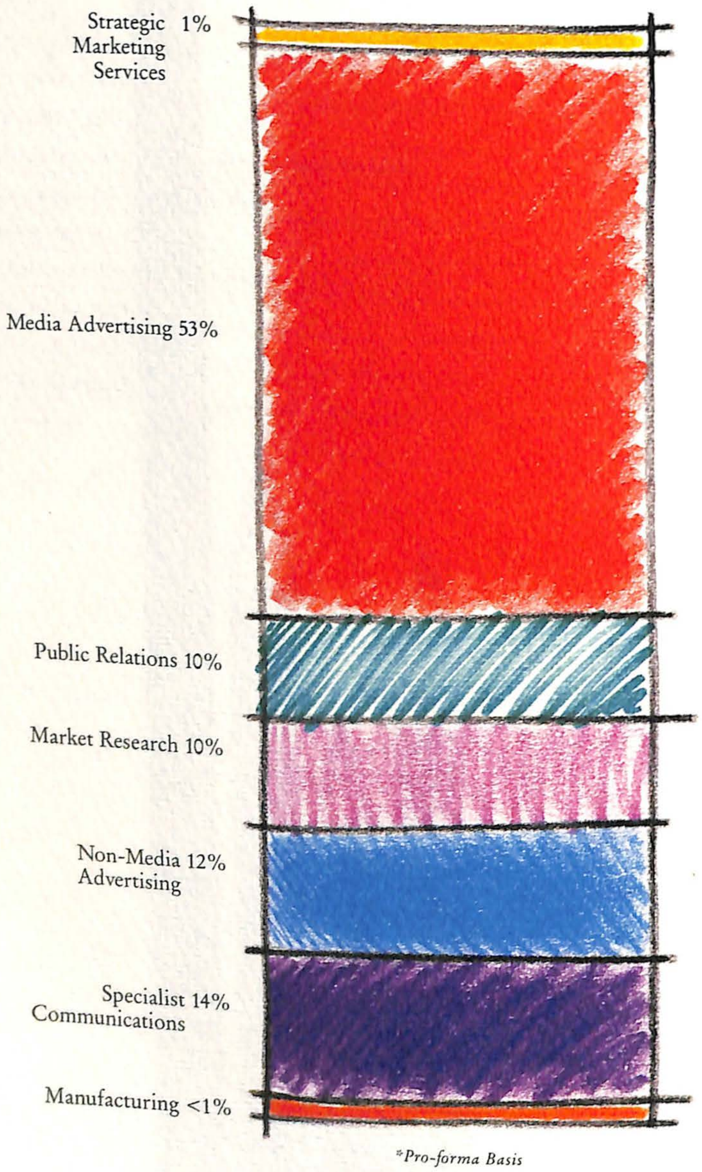
Revenue (£000)



Profit before Tax (£000)

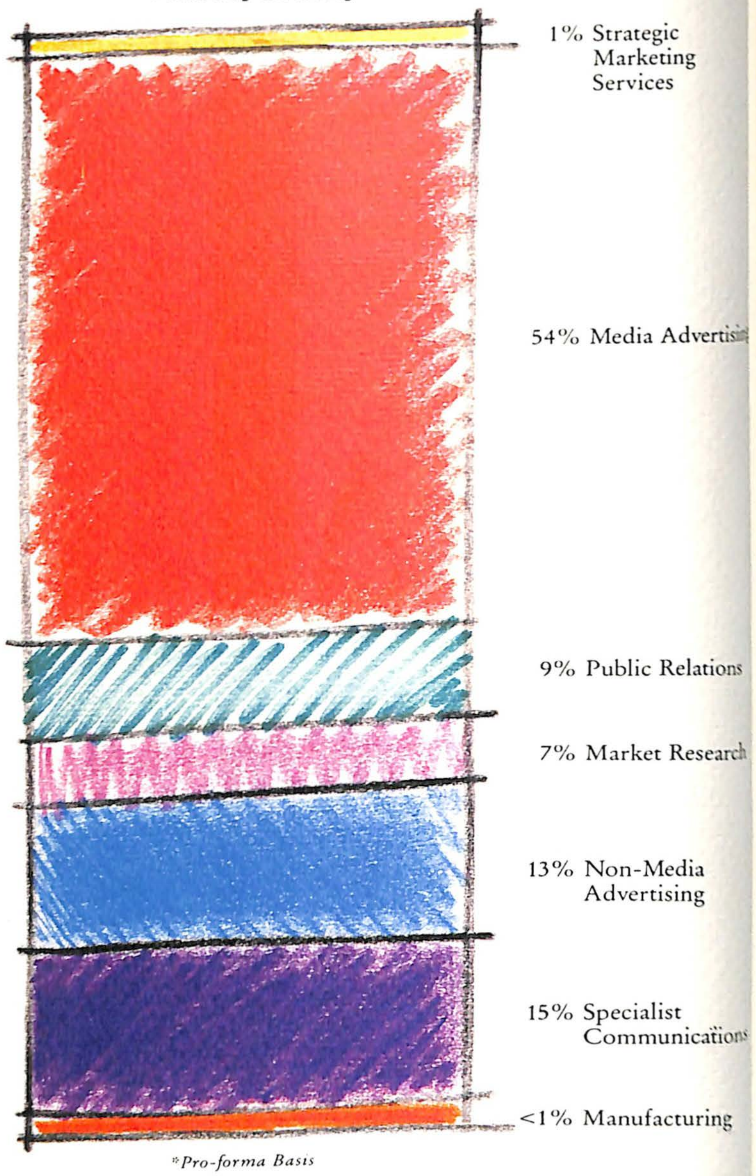
FINANCIAL HIGHLIGHTS

Sales by Activity*

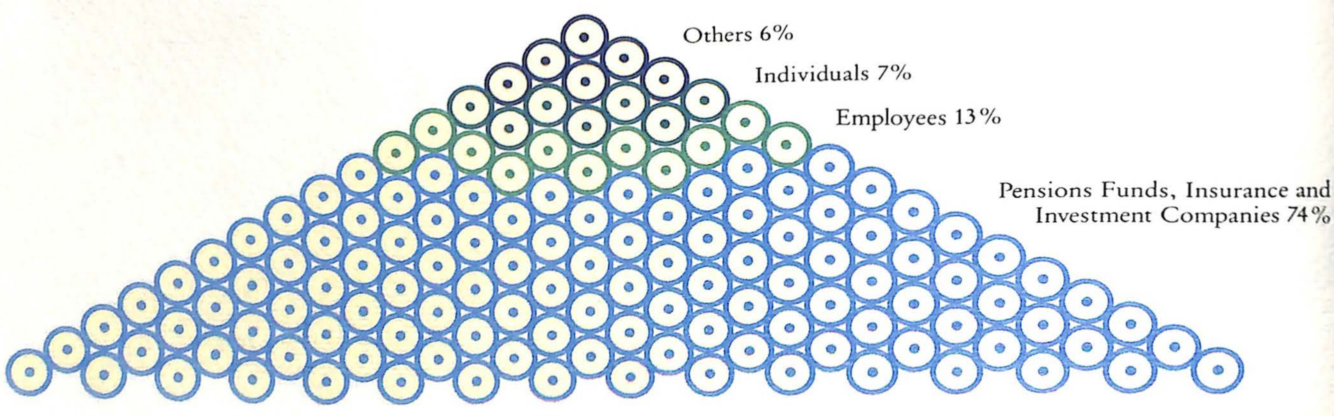


*Pro-forma Basis

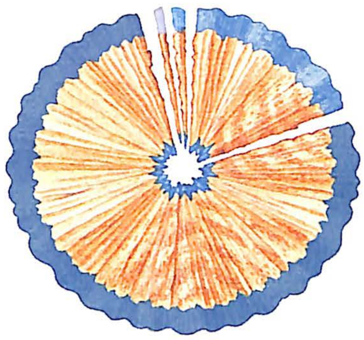
Profit by Activity*



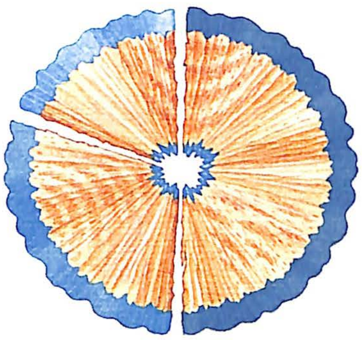
*Pro-forma Basis



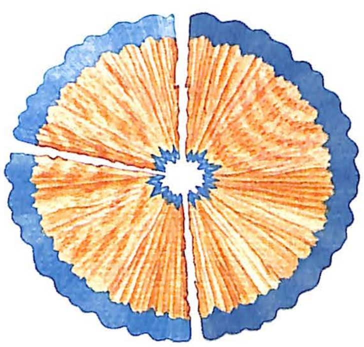
Shareholders by Type



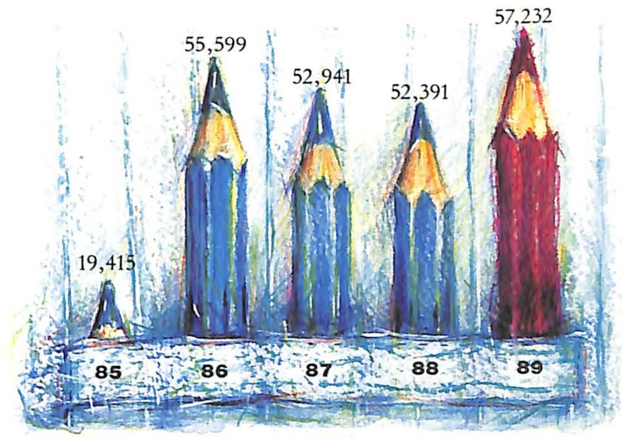
Shareholders by Country
United Kingdom 72%
United States and Canada 22%
Europe 5%   Others 1%



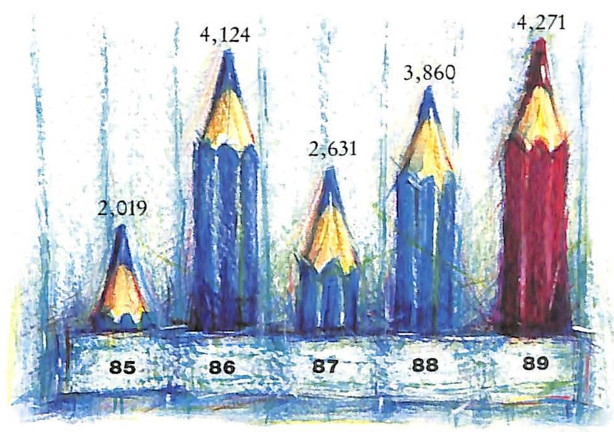
Sales by Geography*
United Kingdom 19%
United States and Canada 51%
Rest of the World 30%
**Pro-forma Basis*



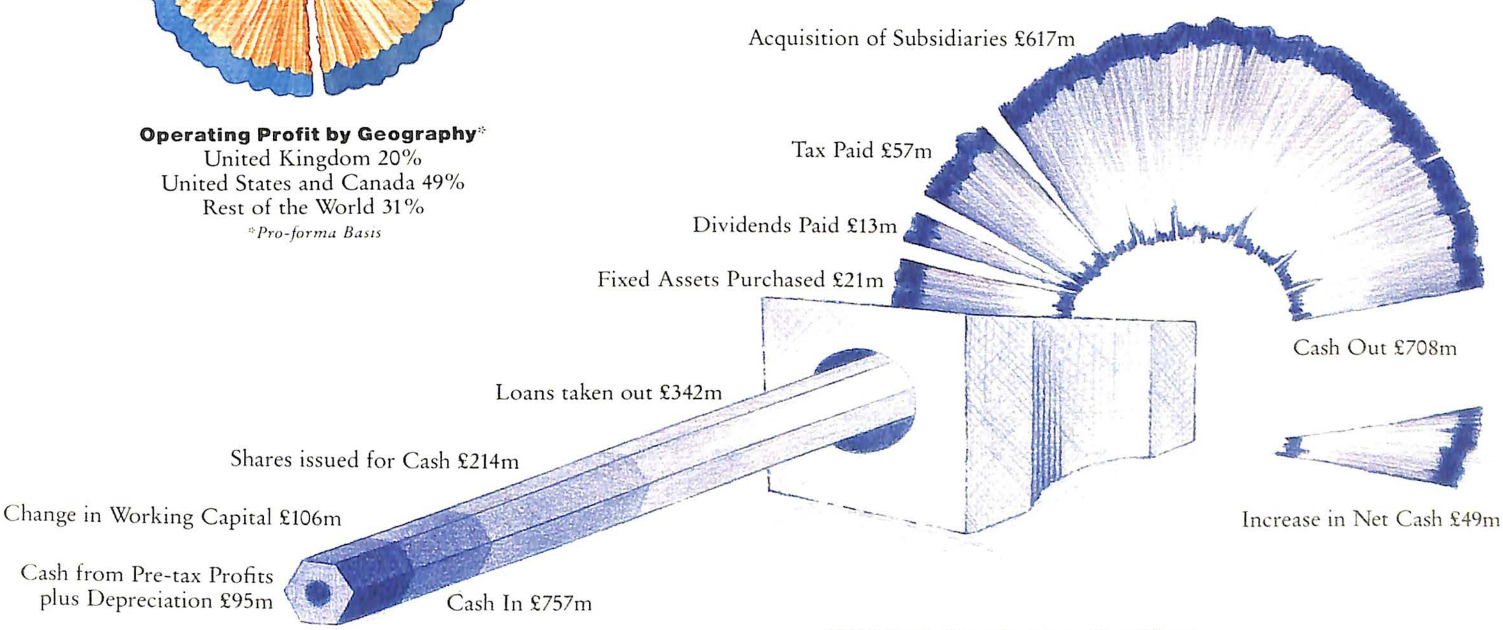
Operating Profit by Geography*
United Kingdom 20%
United States and Canada 49%
Rest of the World 31%
**Pro-forma Basis*



Revenue per Employee (£)



Profit before Tax per Employee (£)



1989 Cash Flow by Item (£ million)

CHAIRMAN'S STATEMENT

David Ogilvy

I am pleased to report the results for the year ended 31 December 1989, the seventh successive year of growth.

Results

In 1989 revenues rose 84%, from £547.1 million to £1.005 billion. Profit before tax went up 86% – from £40.3 million to £75.0 million. Basic earnings per share increased by 34% from 54.3p to 73.0p. Fully diluted earnings per share reached 71.2p per share.

Dividend

The Directors are recommending a final dividend of 12.9p net, making a total for the year of 24.2p, 36% up on last year.

Operating Margins

On a directly comparable basis operating margins have improved from 9.7% to 10.2%, reflecting an improvement in operating efficiency. There were two main reasons for this improvement. First, with the continued improvement of margins at both J Walter Thompson Company and Hill and Knowlton, the pre-tax operating margins of the former JWT Group averaged the targeted 10% over the full year – one and a half years ahead of the schedule established at the time of the rights issue in July 1987. This compares with 4.1% in 1986, 6.5% in 1987, and 9.2% in 1988. Secondly, margins at The Ogilvy Group improved from 7.9% actual in 1988, to 10% post-acquisition in 1989.

Pre-tax Margins

On the same basis, Group pre-tax margins rose from 6.4% to 7.5%, reflecting improved liquidity, and at the year-end the Group had net debt of £325 million ($524 million). Thus debt was $70 million less than it was at the time of the offer for The Ogilvy Group, despite further acquisition cash payments in 1989 of $30 million.

The reduction in net debt reflects working capital improvements which are expected to continue.

Tax Rate

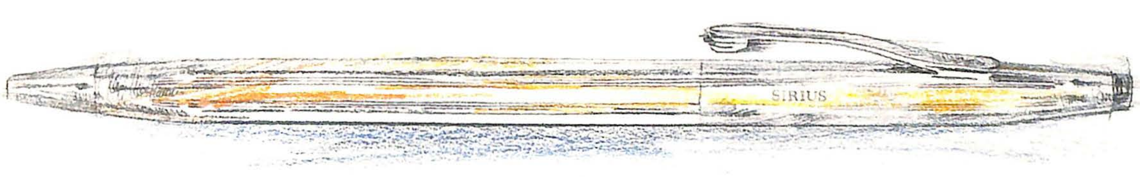
The Group tax rate fell from 47% in 1988 to 46% in 1989 reflecting more structured tax planning. We believe there is scope for further reduction in the Group's tax rate.

Currency Movements

These results include a softening in the pound against major currencies in 1989, as compared with 1988. Excluding currency movements, earnings per share would have risen by 30%. Internal growth accounted for over 85% of the earnings per share improvement of 34%.

Review of Operations

A review of the Group's operational performance is described in detail on the following pages.



REVIEW OF OPERATIONS

In 1989 the Group added net new business revenues of over £149 million ($243 million) equivalent to net billings of £995 million ($1,623 million).

Media Advertising

J Walter Thompson Company added net billings of over £289 million ($471 million), compared with a net gain of £235 million ($422 million) in 1988. This reflects the outstanding results achieved by Burt Manning and his management team in enhancing J Walter Thompson Company's strategic and creative capabilities.

Relationships with existing clients have been consolidated and business with these clients has expanded. New business has kept pace with this growth.

Emphasising that attention was not only being given to the top line, J Walter Thompson Company offices in Atlanta, Detroit, New York, Los Angeles and San Francisco in the United States, as well as Italy, France, Austria, Portugal, Australia, New Zealand and the Philippines were well ahead of their budgets. By carefully evaluating where resources should be allocated, these targets were achieved at the same time as the agency invested a record amount in its creative function.

Despite difficult circumstances facing the new management team at LGFE, this agency added three new clients, and significant additional business from two existing clients. The Group pursued its claim for money damages against the defendants, including Young & Rubicam, and agreed to settle its claim in November, receiving $7 million in cash. This sum has not been included in the consolidated profit and loss account for 1989.

Conquest Europe handled $80 million of media advertising through eleven offices in eleven countries and exceeded its budget.

Public Relations

Hill and Knowlton continued its turnaround. Net new business revenues of £19 million ($30 million) were generated. Pre-tax profits for the year were $12 million, compared with $8 million in 1988, break-even in 1987, and a loss of $4 million in 1986. Profit centres in New York, Washington, Atlanta, St Louis, Los Angeles, San Francisco and Seattle in the United States and in France, Spain, Brazil, Australia, Hong Kong and Singapore performed particularly well against budget.

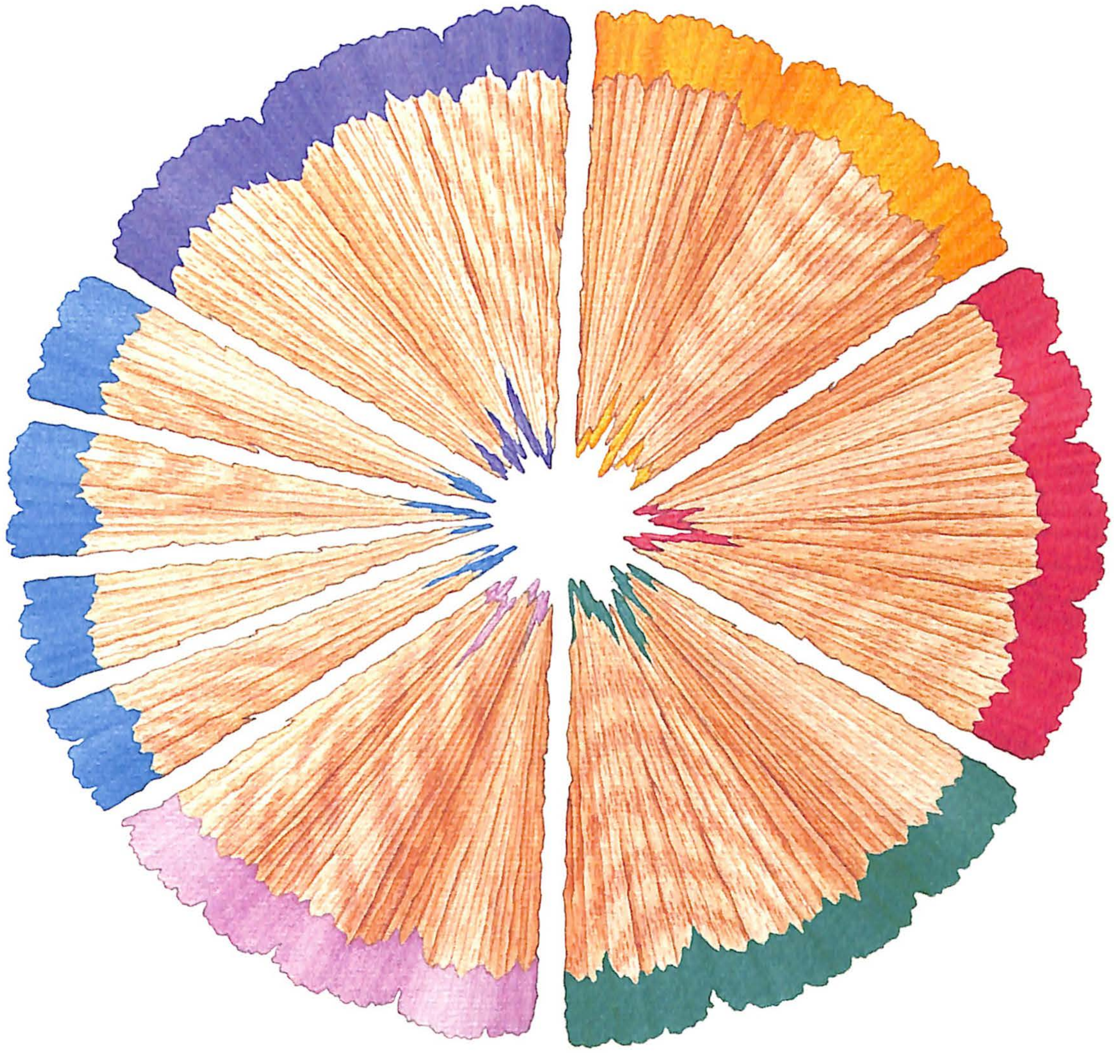
Market Research

MRB Group ended the year well ahead of budget, with particularly strong performance at Simmons, Winona, MRB UK and Japan Market Research Bureau.

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

Strategic Marketing Services, Non-Media Advertising and Specialist Communications

Growth in strategic marketing services, non-media advertising and specialist communications continues as both national



WPP's Six Service Sectors

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

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

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

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.

Non-Media Advertising
Graphics & Design: Architectural services; exhibitions; furniture, industrial, product and environmental design; packaging; corporate identity; marketing and corporate literature.
Incentive & Motivation: Business seminars and entertainment; incentive strategies and programmes; conference and travel management.
Sales Promotion: Consumer and trade promotions; point-of-sale; coupon redemption; self-liquidators; on-pack offers.
Audio Visual Communications: Corporate and training videos; exhibitions and conferences; equipment installation, servicing and hire; presentations, product launches and trade shows; production, editing and transfer.

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

and multi-national clients become increasingly concerned over rising costs of network television advertising, declining network television audiences, media fragmentation and the increasing geographical and functional complexity of their tasks in reaching the consumer. Revenues continued to grow by approximately 15%, with margin improvement sufficient to give pre-tax profit growth in excess of that level.

Several of our companies in these areas performed particularly well – including Pace Communications, Mendoza Dillon & Asociados, Anspach Grossman Portugal, Einson Freeman, HLS, Seiniger, McColl, EWA, The Marketing Consultancy and Coley Porter Bell.

Manufacturing

Our manufacturing division (our industrial roots) had a record year with sales of £4.5 million and profits of £0.6 million.

Business Mix and Growth

The Group now serves over 690 clients in two or more services compared with 325 the previous year. This reflects the increasing opportunity for cross-referral.

It works with 255 clients in three or more services compared with 125 in 1988, and with 129 clients in five or more countries compared with 60 in 1988. The Group now services 299 of the Fortune 500 and employs 22,500 people in 645 offices in 60 countries.

These results reflect organic growth rates of 20% in strategic marketing services, 10% in media advertising, 10-15% in public relations and market research, 15% in non-media advertising and specialist communications and 10% in manufacturing. They include first-time contributions from a series of internally-financed "in-fill" acquisitions which have reinforced the Company's position as one of the leading marketing services companies in the world.

Acquisition of The Ogilvy Group Inc.

The Ogilvy Group was consolidated from the middle of June 1989, and generated net new business billings of £316 million ($516 million) in 1989, compared with £220 million ($360 million) in the same period of 1988.

Ogilvy & Mather Worldwide, which includes Cole & Weber, Ogilvy Direct, Ogilvy & Mather Public Relations, Adams & Rinehart and Promotional Campaigns, achieved its budget for 1989.

At the year end, advertising agency offices in Houston, Los Angeles, Chicago and Atlanta in the United States, and in Canada, Germany, Austria, Belgium, Switzerland, Spain, Turkey, Brazil, Mexico, Argentina, Malaysia, Thailand, Hong Kong, Taiwan and China were ahead of their budgets; as were direct offices at Eicoff in Chicago, and in the United Kingdom, France, Germany, Austria, Belgium, Switzerland, Spain, Mexico, Australia, Thailand and Hong Kong; and public relations offices at Adams & Rinehart, Chicago and Washington in the United States and in the United

WPP Worldwide

Argentina
Australia
Austria
Bahrain
Belgium
Brazil
Canada
Chile
China
Colombia
Costa Rica
Denmark
Dominican Republic
Ecuador
El Salvador
Finland
France
Germany
Greece
Guatemala
Hawaii (USA)
Honduras
Hong Kong
Hungary
India
Indonesia
Ireland
Italy
Japan
Kenya
Korea
Kuwait
Malaysia
Mexico
Netherlands
New Zealand
Norway
Pakistan
Panama
Paraguay
Peru
Philippines
Portugal
Puerto Rico (USA)
Saudi Arabia
Singapore
South Africa
Soviet Union
Spain
Sri Lanka
Sweden
Switzerland
Taiwan
Thailand
Togo
Turkey
United Arab Emirates
United Kingdom
United States
Uruguay
Venezuela
Vietnam

Kingdom, France, Austria, Belgium, Brazil, Malaysia, Thailand, Hong Kong and Taiwan; as were sales promotion offices in New York, United Kingdom, Singapore and Hong Kong.

Scali, McCabe, Sloves also did well against budget for 1989, but Research International did not meet expectations.

Overall, The Ogilvy Group achieved its margin target of 10% post-acquisition.

Following recent personnel changes primarily designed to improve Ogilvy & Mather Worldwide's creative function in New York and detailed operational reviews, The Ogilvy Group consists of three separate units – Ogilvy & Mather Worldwide, Research International and Scali, McCabe, Sloves.

Your Board has agreed financial objectives for each business unit. If these objectives are achieved, the key executives in each unit will be rewarded by incentive plans.

In line with these objectives, the Board, in conjunction with the Chief Executive of each business unit, has reviewed the allocation of resources between client servicing and internal administration. As a result, increased commitments have been made to creative, media and account handling while reductions are being implemented in group administrative functions and business unit overheads.

Other Acquisitions during 1989

Each of these acquisitions has addressed geographic or functional opportunities. As a result the Group has strengthened its activities in public relations and public affairs in Canada, the United States and Australia; in market research in the United Kingdom, United States, Germany, France, Spain and Italy; in sales promotion in the United Kingdom; in corporate identity and packaging design in the United Kingdom; in media advertising and public relations in Austria; in recruitment advertising in the United States; in entertainment advertising in the United States; and in media advertising in Switzerland.

Sales and Profits by Function

After these acquisitions, on a pro-forma basis, 1% of Group sales (which reached £1.25 billion in 1989) and 1% of operating profits are now represented by strategic marketing services, 53% and 54% by media advertising, public relations represent 10% and 9%, market research 10% and 7%, non-media advertising 12% and 13%, and specialist communications 14% and 15%. Manufacturing still accounts for just under 1% of both.

Sales and Profits by Geographical Area

On the same pro-forma basis, operations in the United States and Canada account for 51% of Group sales and 49% of operating profits, United Kingdom 19% and 20%, and the Rest of the World 30% and 31% respectively. It should be noted that the Group's borrowings, which are mainly dollar-denominated, interest-rate capped, and have benefited from lower US interest rates, have tended to reduce the

The reward comes every 1 hour 44 minutes

This book is mostly about WPP Group's financial performance for 1989.

The companies in the Group earned over £1 billion between them.

Whether a Group company provides strategic direction, advertising, public relations, design or information, its value to its clients is the sum of the talent of its people.

It is clear from the financial results alone that Group companies employ many thousands of able and successful professionals. It is equally clear that their peers and competitors think so too.

In 1989, WPP Group companies won 1143 major creative awards, which is equivalent to one every 1 hour 44 minutes of the working year.

It seems only right to include within this book of figures a recognition of the talents that made them possible.

proportion of US dollar profits. Including the impact of interest, operations in the United States and Canada now account for 31%, the United Kingdom for 27% and the Rest of the World for 42% of pre-tax profits.

Short-Term Financial Objectives

As these results indicate, the Group achieved the short-term financial objectives established at the time of the rights issue to finance the acquisition of JWT Group in June 1987. Prior to the acquisition of The Ogilvy Group, acquisition debt had been reduced from $260 million to $100 million, and the former JWT Group's pre-tax margin had been improved from 4% to 10% – which is the average for multinational marketing services groups.

It is believed that this margin can be improved to 11% in this year and 12% in 1991, primarily reflecting J Walter Thompson Company's concentration on packaged-goods clients, and the margin improvement opportunities at Hill and Knowlton, whose operating margins are still below 9% compared with an industry range of 10%-20%.

The Ogilvy Group achieved its post-acquisition margin target of 10% in 1989, and is budgeted to achieve a margin of 12% in 1990, primarily reflecting its strength in Europe and the Far East, and in marketing services – such as direct, public relations, sales promotion and market research.

Cross-Referrals

Cross-referral opportunities continue to develop. In 1989, 17% of new business revenues or $41 million out of a total of $243 million came from this activity. This compares with 12.5% of new business revenues or $18 million out of a total of $144 million in 1988. Moreover, potential revenues of over $68 million were generated in 1989 through cross-referrals, which is equivalent to 28% of net new business. This compares with $33 million in 1988 which was equivalent to 23% of total new business, again a significant improvement. Greater attention is being given to "converting" these new business opportunities, and it is hoped that the conversion ratio will increase from the current 61% and last year's 54%.

Developments since Year End

Since the year end your Company has continued to implement its strategic objective – to be *the* major multinational marketing services company. The acquisition of Extern Public Relations in Finland will further strengthen the public relations capabilities of Hill and Knowlton. The acquisition of Thomas Ferguson Associates will ensure a strong base in the United States for the Group's healthcare advertising activities and that of Fast in Belgium will strengthen Conquest's pan-European network.

Your Company intends to continue developing this programme of internally-financed "in-fill" acquisitions, with particular emphasis on Continental Europe and the Far East, and on non-media advertising and specialist communications.

Brand Valuation

In 1988, after careful consideration, your Board decided to incorporate the value of the brand names of J Walter Thompson Company and Hill and Knowlton in its balance sheet. This was done on a conservative basis. It reflects your Board's view that, in the absence of such revaluation, the balance sheet would significantly understate the value of your Company's assets.

To the extent that brand valuations are reflected on the Group's balance sheet, the Board considers that although valuations need to be periodically reviewed, there is no reason why there should be any requirement to *amortise* these amounts. Such a mandatory practice fails to reflect the commercial and economic reality of the sustainable value to shareholders of such assets.

Together with its advisers, the Board has conducted a similar review of the brand names associated with The Ogilvy Group and decided to incorporate their values in its Balance Sheet. These valuations amount to £175 million. They are confined to Ogilvy & Mather Worldwide and are on a conservative basis.

Future Prospects

In the first quarter of 1990 a number of significant new assignments have been awarded by clients totalling in excess of £39 million ($63 million) in revenue or £258 million ($420 million) in billings.

While market growth rates in media advertising in the United States and the United Kingdom have slowed in recent months, the Group's concentration in packaged-goods marketing services, which account for approximately 45% of its sales, positions the Company well. Many packaged-goods companies believe that expenditure on advertising and marketing services is essential, and must be maintained or increased to protect or develop their brand equities – particularly following major acquisition programmes which have involved the payment of considerable amounts for goodwill.
The most rapidly growing segments of the marketing services industry remain media advertising outside the United States (particularly in Continental Europe and the Far East) and non media advertising worldwide.

The Group is uniquely positioned to benefit from this situation, as approximately 50% of its sales arise outside the United States and outside media advertising.

The Group continues to trade satisfactorily, and your Board believes that the results for 1990 will reflect continuing progress.

David Ogilvy
Chairman

Martin Sorrell
Chief Executive

Brands

"The manufacturers who dedicate their advertising to building the most favourable image, the most defined personality for their brand, are the ones who will get the largest share of market at the highest profit.

The time has come to *sound an alarm*, to warn our clients what is going to happen to their brands if they spend so much on deals that there is no money left for advertising to build their brand.

Deals don't build the kind of indestructible image which is the only thing that can make your brand part of the fabric of American life."

David Ogilvy

President, Ogilvy & Mather
American Association
of Advertising Agencies, 1955

"Someone actually asked me the other day: 'What's your job really all about?'

He probably expected a long answer. Instead he got a short one. I said: 'I guard the brand.'

The brand is like a battery. It stores all the credentials your consumers want to inspect before they buy your product instead of buying someone else's.

A brand is also like a genetic fingerprint. It contains all the information and all the characteristics and all the idiosyncracies that distinguish a Persil from an Ariel, a Benson & Hedges from a Rothmans, a Mercedes from a BMW – or a Barclays from a NatWest; and for that matter, a Barclays from a Nationwide.

A brand is a company's most precious possession. In a world where no-one can hold on to technical leads for more than half a season, it's the brand that provides the continuity which can make or break the business."

Peter Gittoes

Head of Advertising
Barclays Bank PLC
BZW UK Media Conference
October 1988

"The third type of creativity [the first and second being the creation and use of technology] is in marketing. That is, selling the things you have produced. Even if you succeed in manufacturing something, it takes marketing to put that article into actual use before you have a business."

Akio Morita

Chairman, Sony Corp
The Japan That Can Say "No", 1989

Media Buying

"I'd go into a market like Berlin or Warsaw and get in touch with the leading publisher. I'd ask him what rates he charged and then I'd tell him. I don't mean *that* rate. And then the publisher would say, well, that was his best rate. And, I'd say, well, what do you charge your best customers? What do you give as a volume rate? What discounts will you give us for cash? In this way we slowly made progress."

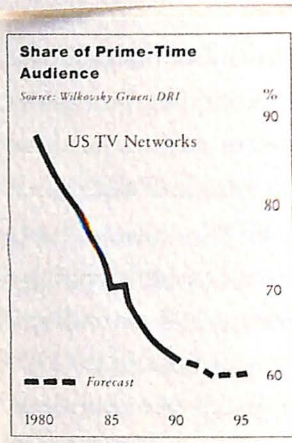
Sam Meek

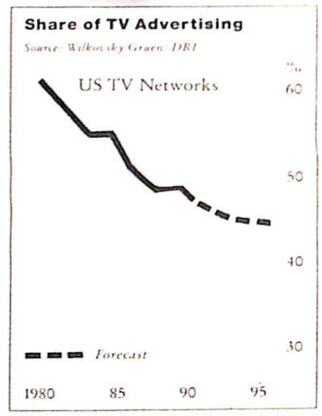
Manager,
J. Walter Thompson Company Limited
London, 1926

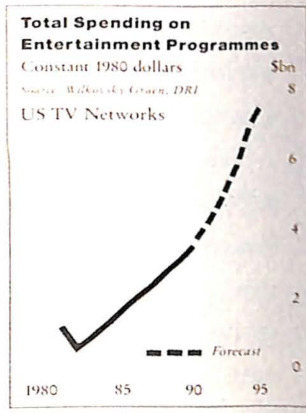
"The law of diminishing returns is going to impose, in my view, new disciplines on the market. I've always been a great lover of the creative people in the advertising world, but I'm afraid we're moving into the era of the media planner. And the omnipotence of the media planner may be the phenomenon of the 1990s."

Anthony O'Reilly

Chairman, President
and Chief Executive Officer
H. J. Heinz Co
Advertising Age, 26 February 1990







"Long before Stanley Resor became a part of the agency team, J. Walter Thompson's organisation had made the basic decision to go the other way – to become a "service agency," devoting itself primarily to the welfare of its clients rather than solely to the sale of white space. But Thompson's decision was a reluctant one, in which he saw the agency's space-buying function as the most important service he could render, and copy preparation as a sort of necessary evil, the practice of which was sometimes thrust upon his organisation before it could get down to the basically important job of space buying."

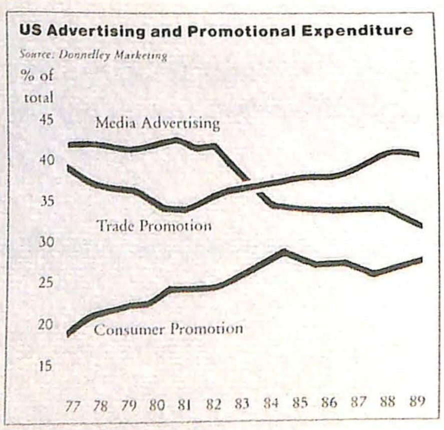
Advertising Age

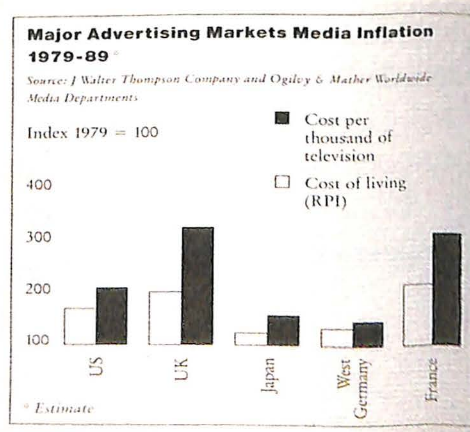
J. Walter Thompson Company
Centennial Edition, 7 December 1964

"Clients sometimes change agencies because one agency can buy circulation at a slightly lower cost than another. They don't realise that a copywriter who knows his factors – the triggers which make people read advertisements – can reach many times more readers than a copywriter who doesn't."

David Ogilvy

Ogilvy on Advertising





THOUGHTS AND TRENDS

Global Marketing

"A translator must be more than a man who equitably changes the word-currency of one language into the word-currency of another. He must be able to reproduce the pith and point of the original advertisement to accommodate its argument to the character of the people addressed, to take to pieces the word structure of the American and re-erect it in a form suited to people of different tastes and temperaments."
James Walter Thompson
On advertising abroad, 1906

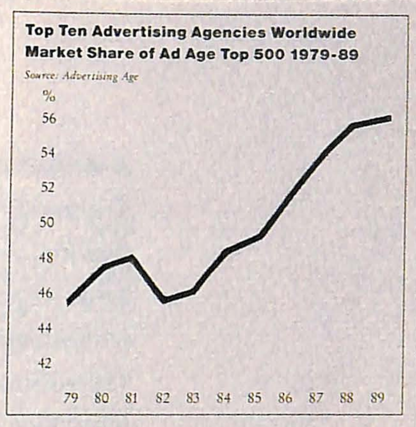
"In country after country we are seeing the emergence of a middle class consumer life style, not unlike the one that began developing in North America a century ago. Each country and each region is different, of course, and anyone who wants to sell in these emerging mass markets has to see those differences. Still we're seeing that many tastes cross cultures, among them the simple tastes for comfort, convenience and time. In the food business that means demand for packaged, fast-to-prepare or ready-to-eat products. And as tastes become global, products are bound to follow. Tomorrow, we believe, the food business will see more and more brands go global."
Hamish Maxwell
Chairman and Chief Executive
Philip Morris Companies
October 1989

"If you believe some of the puffs, there could soon be 320 million of these euro-clones, drinking euro-beer, eating euro-wurst and watching euro-soaps on euro-satellite television. To seasoned retailers, all this sounds like euro-boloney."
The Economist *4 November 1989*

"The advertising market in Japan is saturated. For Dentsu to grow, we must expand overseas."
Konichi Segawa
Dentsu Inc.
Speaking through interpreter
Sky World Business News
1 December 1989

"From now on, Japan will need to take a major role in Asia. You already are able to see this is happening when you recognise that Tokyo has taken on a major role as a finance and money center like New York and London. In the past, we yearned to go to New York when we were young. Similarly, the youth of Southeast Asia yearn to visit Tokyo or Disneyland in Japan. I should avoid the expression, "leadership", but Japan has begun to assume that role as a center in Asia."
Akio Morita
Chairman, Sony Corp
The Japan That Can Say "No", 1989

Organisation



"We are not interested in running a lot of agencies as such. Our objective is to provide a facility so that a manufacturer can extend his know-how wherever in the world he wants."
Sam Meek
Manager,
J. Walter Thompson Company Limited
London, 1926

"Each JWT office must be strong in and of itself. Thompson never has the power to support a weak office. Each one must stand on its feet locally. Then our international strength is a plus."
Sam Meek
Manager,
J. Walter Thompson Company Limited
London, 1926

"Bigness may well continue to be effective, but big is frequently coming to mean collections of smaller firms in new organisational combinations."
Tom Peters
The Economist, 4 March 1989

The Last Word

"Whatever is common is despised. Advertisements are now so numerous that they are very negligently perused, and it is therefore become necessary to gain attention by magnificence of promises, and by eloquence sometimes sublime and sometimes pathetic."
Samuel Johnson *January 1758*

"The trade of advertising is now so near to perfection, that it is not easy to propose any improvement."
Samuel Johnson *January 1758*

MARKETING SERVICES

A Market that Continues to Grow

The trends identified in previous Annual Reports, and on which the WPP strategy is based, continued through 1989. Media advertising grew, at a faster rate outside the United States than within; and the worldwide spend on non media advertising grew faster still.

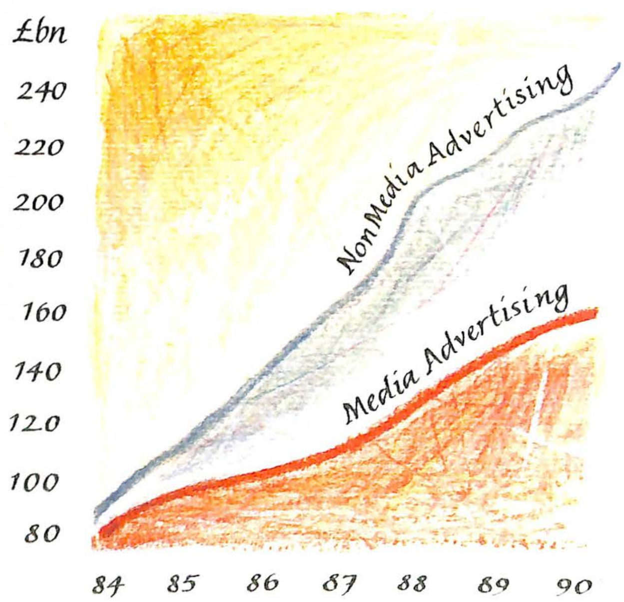
The marketing services industry is worth almost $625 billion, and is growing at between 10 and 15% a year. This market can be divided between media advertising, i.e. advertising on network and local television, in newspapers and magazines, on radio and outdoor; and those other means that companies use to communicate with their markets and audiences – public relations; market research; non-media advertising, which includes graphics and design, incentive and motivation, sales promotion and audio visual communications; and specialist communications. Media advertising accounts for about 38% of the world market ($240 billion), and is growing at between 8 and 12% p.a.; the less visible non media portion is about 62% ($386 billion) and growing even more rapidly at about 10 to 15% p.a.

1989, a year of some uncertainty for world markets, brought issues of cost-efficiency – and, in particular, media buying – into sharper focus. The question "How can we get better value for our marketing spend?" is one that clients have always asked their agencies. Now they are asking more insistently; and the agencies' answers have become more varied and more innovative.

As a Group, WPP is concerned with those answers that add value by management of the imagination.

Growth in Worldwide Marketing Services Expenditure 1984-1990

Sources: J. Walter Thompson Company, Ogilvy & Mather Worldwide, WPP Group



° Projected

Worldwide Marketing Services Expenditure 1989 – US $ billions

	USA	UK	France	Germany	Japan	Rest of World	Total
Media Advertising	121.2	13.7	9.0	11.3	30.9	52.3	238.4
Public Relations	13.1	1.5	0.5	0.7	2.8	0.9	19.5
Market Research	2.2	0.7	0.3	0.4	0.4	1.4	5.4
Non-Media Advertising							
Graphics & Design	15.6	5.0	1.2	1.4	5.8	2.0	31.0
Incentive & Motivation	2.3	0.6	0.2	0.3	0.7	1.0	5.1
Sales Promotion	132.4	14.5	8.6	9.5	34.3	46.2	245.5
Audio Visual & Video	2.6	0.6	0.4	0.5	0.6	0.9	5.6
Specialist Communications							
Real Estate	1.2	0.2	0.1	0.3	0.5	0.3	2.6
Financial Communications	1.3	0.5	0.1	0.1	0.6	0.1	2.7
Ethnic	1.2	0.2	0.1	0.1	0.1	0.1	1.8
Public Affairs	4.6	1.0	0.3	0.4	1.0	0.3	7.6
Direct Mail	22.4	4.2	1.8	2.4	6.7	8.9	46.4
Recruitment	4.0	0.6	0.2	0.6	0.8	1.3	7.5
Healthcare	3.1	0.6	0.3	0.4	0.8	0.4	5.6
Total	327.2	43.9	23.1	28.4	86.0	116.1	624.7

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

Size and Growth Rates of UK Marketing Services 1979 – 1990

	Media Advertising		Sales Promotion		Public Relations		Direct Marketing	
	£bn	%	£bn	%	£m	%	£m	%
1990F	8.64	8	9.16	11	1275	15	830	13
1989E	8.00	10	8.25	13	1110	17	735	14
1988	7.26	17	7.30	12	950	16	645	12
1987	6.18	12	6.53	7	816	15	575	11
1986	5.50	24	6.10	11	708	18	517	10
1985	4.44	9	5.50	10	600	20	470	9
1984	4.06	13	5.00	25	500	16	430	6
1983	3.58	14	4.00	14	430	23	405	9
1982	3.13	11	3.50	17	350	27	370	19
1981	2.82	10	3.00	11	275	38	310	3
1980	2.56	20	2.71	12	200	23	300	15
1979	2.14	17	2.43	14	162	14	260	18
10-year historic growth rate		14.1		13.0		21.2		11.0
5-year historic growth rate		14.5		10.5		17.3		11.3

Sources: Advertising Association, Post Office, Keynote, DMPA, ISP, Hollis, IPR, PRCA
Latest available agency estimates for 1989 and forecasts for 1990

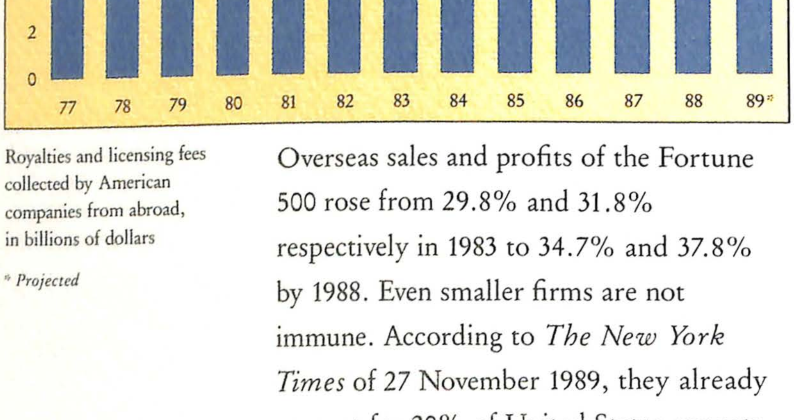
The Pressures on Advertising

Marketing problems are becoming increasingly complex for multi-national and national companies alike. The spread of operations, both geographical and functional, has grown dramatically; product life-cycles are shorter; brands demand constant investment; there is pressure on costs; and the retail sector is now extremely powerful. The demand for marketing services is increasing as a response to these pressures.

Functional and geographical spread

In 1949 the proportion of large companies pursuing a single activity was 42%. By 1974 this had fallen to 14.4% and by the early 1980s it was down to 10%.

Over 40% of sales and profits from Hoare Govett's UK Quoted PLC comes from outside the United Kingdom.



Royalties and licensing fees collected by American companies from abroad, in billions of dollars

* Projected

Overseas sales and profits of the Fortune 500 rose from 29.8% and 31.8% respectively in 1983 to 34.7% and 37.8% by 1988. Even smaller firms are not immune. According to *The New York Times* of 27 November 1989, they already account for 20% of United States exports and are increasingly taking the next step of setting up operations overseas. According to Kenneth Flamon of the Brookings Institute, "A lot of small companies are forced into the international marketplace, just to stay alive." In *Fortune* magazine, Howard Perlmutter of Wharton identified 136 industries, from accounting to zips, where you may have to play world chess or get out.

Another indication of this trend is increasing cross-border takeover activity, of which a growing proportion originates in Europe. In the first quarter of 1989 European deals worth ECU 5 billion were struck; in the second quarter ECU 10 billion; in the third quarter ECU 18 billion – a total of 953 mergers and acquisitions worth ECU 33.5 billion in just nine months.

Life-cycles shortened

Product life-cycles have shortened dramatically: even automobiles are being introduced faster, the average replacement period having been lowered by the Japanese from 9.2 to 4.2 years. Market sectors have matured and there is a consequent need to add competitive value through product and brand differentiation. For example, in the United States the number of cereal brands that sell at least $1 million annually at retail has grown to 150 today from 84 in 1979, according to SAMI, a market research firm. Food stores now sell 31 million-dollar brands of toothpaste, up from only ten a decade ago. As Mr Wisse Dekker of Philips said in the *Harvard Business Review* May-June 1989:

"...the fact that the product life-cycle is so short; the fact that the investments you have to make are so large and the time you have to recover your costs and make money is so short. These are all factors that were unknown to the manager of yesterday. Today they have redefined the way competition is waged."

Current Car Design and Product Strategies

Sources: Harvard University, International Motor Vehicle Programme

* Includes foreign-owned factories

	*Europe	Japan	United States
Design time Months	60	47	60
Design effort Man-hours	3·2	1·7	3·0
Models in Production, number	48	72	36
Average replacement period, years	9·2	4·2	9·2
Average annual production of each model, '000	200	120	230

Value of brands

Our clients, chiefly national and multinational consumer goods companies, are committed to developing the sales and market shares of their brands. They are only too well aware of the risks and costs attached to attempting to re-establish a lost position. Major packaged-goods companies do not pay significant earnings multiples for firms with well-developed brands in order then to reduce marketing expenditure and devalue the very assets they are acquiring – intangible though these may be.

The same iron law – i.e. that premium prices in the corporate market mandate premium marketing support for brands – also applies to leveraged buy-outs, where any buyer would have to maintain or increase brand spending to preserve the value of their considerable investment. Nor is the emphasis on buying brands likely to go away, as recent acquisitions – among both packaged-goods companies and capital goods companies – demonstrate. For example, it is estimated that the top 40 food-processing companies in Europe will merge to become ten giants within the next few years, with all the advantages that size and volume may confer.

In addition, key advertising sectors such as the automobile industry face increased competition. Three new car brands have been or will be launched within 12 months in the United States, each of which will need advertising support of over $100 million. These are examples where brands, both new and old, seek to differentiate themselves.

BusinessWeek in March 1990, discussing the increasing importance of customer service as a differentiator of products and services, pointed out: "A lot of US executives may have no choice about making the effort. Demand for many consumer products is growing at only the same slow rate as the population. And technological advances have resulted in a slew of products of similar quality which makes it tough for companies to stand out, while price competition has resulted in margin-killing battles for market share."

These are some of the reasons why we have been consistently more bullish than some others about the outlook for media advertising in the United States.

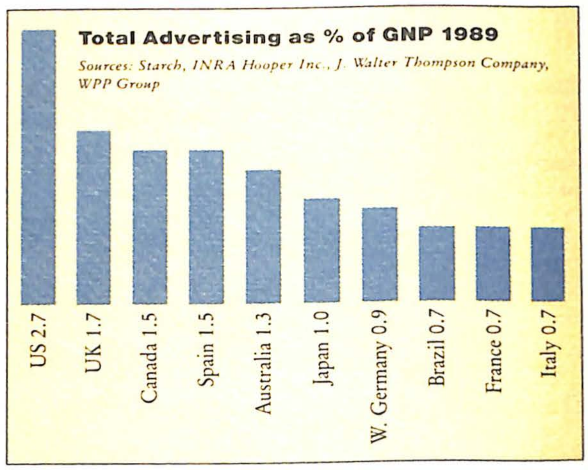
Low-cost producers

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

Total employees in the Fortune 500 declined by 18.8% between 1979 and 1987, or from an average of 32,390 to 26,288, while sales rose from $104,000 to $143,000 per head. Such activity has recently been heating up in the oil industry. According to *The Economist* on 23 September 1989, "America's Occidental set the ball rolling early this month when it announced it was cutting its domestic oil and gas operations with the loss of some 900 jobs. Britain's BP followed up by damming its upstream (oil exploration and production) business. One in six jobs in its exploration arm is to be scrapped and $1.3 billion of oil and gas reserves sold. Occidental reckons that the changes will save it $100 million a year; BP says it will save $150 million a year. Expect more shake-ups in the coming months, preceded by hot denials. Royal Dutch Shell, the world's biggest oil company, looks set to restructure its American upstream business with perhaps 1,000 jobs going. It may swap some North Sea reserves with Amoco – itself in the process of cutting up to 8,000 staff worldwide. Mobil, too, seems poised to shake up its upstream side. Others will follow."

Even Japanese companies are not immune. Commenting on organisational changes at Toyota, Yumiko Ono and Marcus Brauchli of *The Wall Street Journal* said on 8 August 1989, "Like many US corporations, Japan Inc is doing away with layers of middle management in hopes of improving efficiency."

However, there is clearly a limit to how much costs can be cut before product quality is jeopardised. On the other hand, in theory at least, revenues and margins can be increased indefinitely by adding value. As a result, we expect to see, and indeed are seeing, heavier spending on brand development, not only in the United States.



Increasing retail power

In Germany, the top ten grocery organisations control 80% of the business, in the United Kingdom 66%, in Italy 33%, and in Spain 20%. In developed markets it is common to find a retailer who accounts for over 20% of a manufacturer's sales. The reverse is rarely the case.

The resulting imbalance of power can only be redressed by spending on marketing services, particularly on media advertising.

But inside stores the battleground has shifted in other respects as well.

The POPAI and Progressive Grocer surveys in the United States indicate the following trends:

Buying habits

- The number of weekly supermarket trips per week has increased from 2.0 per week in 1986 to 2.4 per week in 1989.
- In 1989, of shoppers surveyed 17% almost always make an impulse purchase, 23% frequently do, 48% occasionally and only 12% never do so.
- Whilst 69% of shoppers almost always make a list, only 12% almost never deviate from it and 45% frequently or almost always do so.

Retail trends

- The average supermarket has increased more than 2.5x in size from 13,000 square feet in 1974 to 32,000 square feet in 1989.
- The number of goods stocked has increased from less than 10,000 to 19,000 over the same period.
- In 1989, 71% of chain stores had scanning as opposed to 26% in 1982.
- The number of hours each supermarket was open for increased from 102 hours in 1982 to 125 hours per week in 1989.
- 98% of supermarkets were open on Sundays. 24% were open for 24 hours a day at least one day per week and 29%, as opposed to 15% in 1982, were open 24 hours 7 days a week.
- In the UK, although stores over 25,000 square feet account for only 1% of stores, they account for 30% of the grocery turnover.

Marketplace trends

- Three networks' combined share of audience at prime time has shrunk from 89% in 1978/9 to 73% in 1984/5 to 60% in 1988/9.
- In 1989 73% of women were working as opposed to 39% in 1970.

According to *The New York Times*, barcode scanners are now used in more than half the supermarkets in America. Manufacturers no longer have the greatest knowledge of where and why products are sold. As a result of scanning, retailers know exactly which products are moving and at what prices.

Retailers now use computerised systems to determine the value of shelf-space by cubic inches, and are asking manufacturers for fees to stock products – "slotting allowances" – costing on average $4,000 for each product in each store. These allowances come out of advertising budgets and now take 44% of all marketing budgets, up from 34% in 1980.

Scanner technology also compiles detailed records of customers. A Citicorp subsidiary, for example, is testing a frequent shopper programme in the Ukrop's Super Markets chain in Richmond, Virginia. In return for discounts and other incentives, shoppers who enrol – 180,000 have so far – use magnetically coded cards at the checkout counters, enabling the chain to learn who is buying what, and to target appeals accordingly.

Professor Schultz of Northwestern University, who has studied the impact of scanners, said this bodes ill for national advertising. "Once they start to build databases, then retailers can start talking directly to those people, through direct mail or other means, and they can motivate those customers to change their shopping habits," he said.

In Canada and Britain, several grocery chains are experimenting with creating their own high-priced private label brands which are more profitable to them than national brands. In turn, the chains are deeply discounting the national brands to lure customers.

"That's potentially disastrous to national advertisers and their agencies" Professor Schultz said.

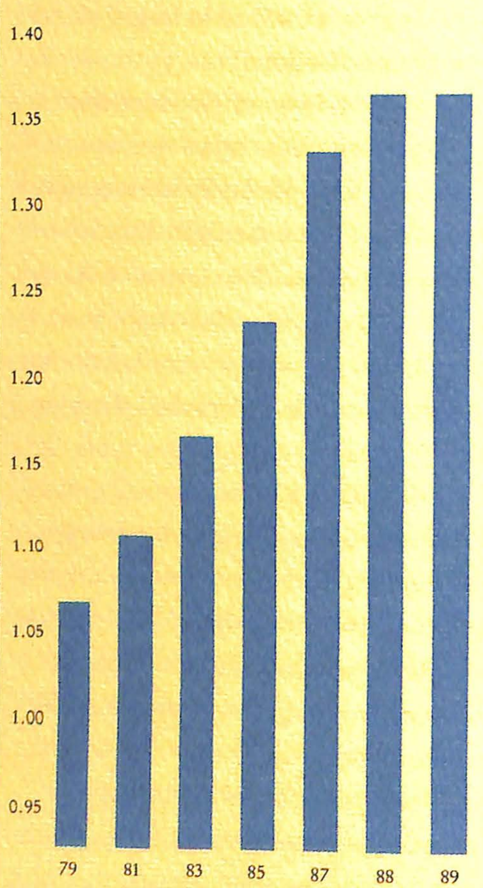
Expansion of Media Advertising

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

As a result the United States market for media advertising is today worth $120 billion (around 50% of the worldwide market). In the United States, growth of almost 300% in media revenue between 1975 and 1988 easily outstripped expansion of gross national product, which grew by 200%. Over the same period, the number of commercial television stations increased by 46%, and radio stations by 25%. There were 68% more consumer magazines on sale, and although the overall number of newspaper titles shrank from 11,300 to 10,450 because of closures of evenings and weeklies, the number of morning papers increased by 30% to 458. However, double-digit growth in the United States in the early 1980s has slowed in the last five years to high single digits. In 1989 it actually reached 7%, which was higher than earlier estimates from industry pundits.

US National Advertising Expenditure as % of GNP 1979-89

Source: WPP Group

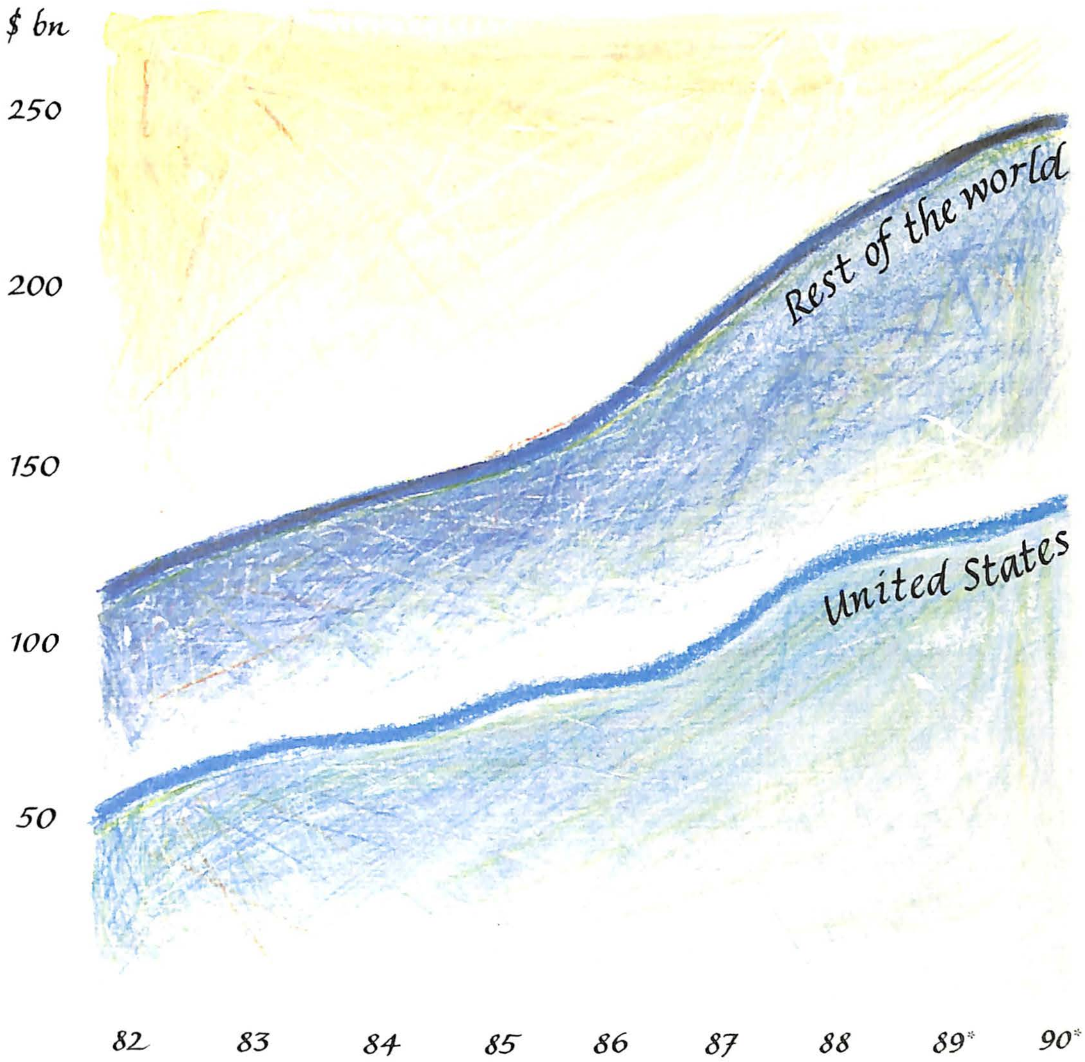


Yet outside the United States, media advertising expenditure is increasing even faster – on average over 12% per annum. This reflects two factors. First, in the rest of the world, levels of media advertising are half those of the United States. Secondly, media deregulation, particularly in television, has stimulated primary demand for TV advertising. High double-digit growth in recent years in the United Kingdom, France, Italy and Spain reflect these developments, and the high-growth markets of the next five to ten years will be Continental Europe, South-East Asia and Latin America.

According to the *Investors Chronicle*, "Volkswagen, Dai-Ichi, Unilever, Renault, Ford, Marconi, Citicorp, even British Steel: countless multi-nationals have been sweeping into the smaller Mediterranean economies. These have been the fastest-

Worldwide Media Advertising Expenditure

Source: WPP Group



* *Estimated*

growing countries in Europe during the 1980s; and there is every sign that they will keep their allure for international capital".

This was said about the "Southern Crescent" or "olive oil belt" in September 1989 before the recent political upheavals in Eastern Europe. These may well reverse the southward economic drift in Europe, which was primarily stimulated by concentrations of population and cheaper labour.

Mediterranean Economies

Source: Investors Chronicle, September 1989

The Southern Crescent has beaten other economies
Average annual % change in 1985 to 1988

	Spain	Portugal	Turkey	All OECD
GDP	4¼	4	6¼	3½
Investment	11	10¼	13	4½
Inflation	6½	11¾	57½	3½

Stimuli for Non Media Advertising

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

Short-term

Low rates of inflation

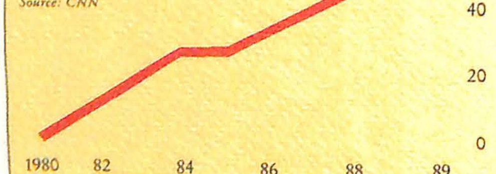
In the short term low rates of inflation have made it difficult for our clients to pass on to the consumer increasing media costs, particularly in television.

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

Fragmentation

At the same time network audiences have fallen, and because of the increasing number of channels, audiences have "decomposed" through zipping or zapping (though recent Nielsen data indicated less zapping) or video-cassette rental or boredom induced by low-quality programming. However, the networks are making increasingly innovative attempts to promote their programming. NBC, for example, has displayed ads and "promercials" at Sears for its new series, as has CBS at K mart. But network TV has also suffered from the competitive attacks of cable television, syndicated programming and independent stations.

Number of Homes Receiving CNN, Worldwide
(excludes over 1m hotel rooms and pirate receivers)
Source: CNN



* *Of which: Europe 43m, Japan over 1m.*

In 1980	There were 29 terrestrial channels
In 1990	There are 63 terrestrial channels
In 1980	There were no satellite channels
In 1990	There are 60 satellite channels
In 1980	There were 1,162 commercial minutes per day
In 1990	There are 2,752 commercial minutes per day
In 1980	There were 2 private terrestrial stations
In 1990	There are 27 private terrestrial stations

A further challenge comes from ethnic networks such as the Spanish-language networks Telemundo and Univision. They are paying $38 million to A C Nielsen to develop a Hispanic audience measurement service.

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

Long-term

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

Difficulty of measurement

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

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

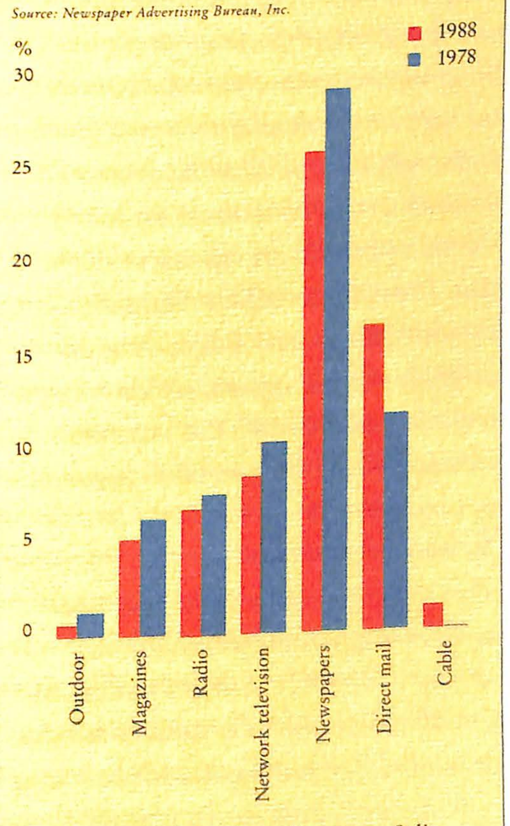
According to the Newspaper Advertising Bureau in the United States, between 1978 and 1988, the shares of domestic advertising expenditures going to newspapers, magazines, network television and radio declined. Direct mail grew substantially. As Jagdish N. Sheth of the University of Southern California said in *Adweek's* 'Marketing To The Year 2000' on 11 September 1989, "Another result (of the need to accommodate consumers) will be the use of more and more direct marketing. You can't reach people between 9 and 5. Direct mail has grown tremendously in the last ten years, and now we are beginning to see cable TV (home shopping), which as a new medium might look illegitimate and outrageous but will eventually get accepted. While cable began with Vegamatics, you will see it turn to appliances and professional services".

Generally, there now seems to be a belief that complementary forms of media advertising and non media advertising should be used together. According to Randall Rothenberg of *The New York Times* in October 1989, "Continental Airlines, Courvoisier Cognac and 23 other companies each paid $30,000 to buy sponsored spaces on a new board game, 'It's Only Money', aimed at parents and children. Marketers and the media are also increasingly blurring the line between advertising and television programming or magazine articles.

"In an intricate arrangement, *Family Circle* magazine, a publication of The New York Times Company, ran several

Moving from Traditional Media

Source: Newspaper Advertising Bureau, Inc.

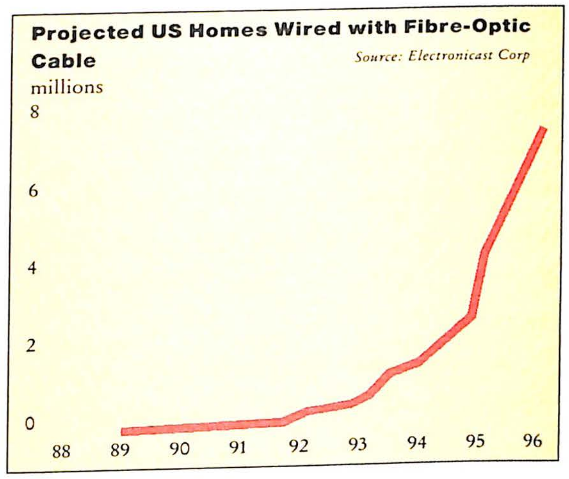


US Advertising Expenditure Percentage Split articles this year about the renovation of a house by Martha Stewart, the home-entertainment writer. K mart, the nation's second-largest retailer, purchased all the advertising space around the stories. Ms Stewart, a paid consultant to K mart, used its products in the renovation and appeared in television ads for the company showing her at work and endorsing specific products available to K mart shoppers."

Whittle Communications, 50% owned by Time Warner, is introducing a satellite-delivered TV network for doctors' waiting rooms. Having reached the United States classroom last year through Whittle's Channel One, such thoughts have even reached the classroom in the United Kingdom. According to *The Economist* on 7 April 1990, "Contrary to popular belief companies have advertised in schools for years. Any teaching aid worth pinning to the wall has always had its donor's name stamped all over it. But now the state's secondary schools are starting to think of their 11 to 16-year-olds as a valuable commercial resource." Reinforcing the trend, *Sports Illustrated,* a Time Inc sport magazine, introduced a line extension edition for kids aimed to reach boys and girls aged 8 to 13.

Technological advance

The second reason for faster non media advertising growth is technological advance. The effect of the increasing use and shrinking costs of computers and the development of mailing and telemarketing techniques has been to fragment the market. And further market-shaking developments are on the way, such as optical fibre. According to *BusinessWeek* on 31 July 1989, "Thanks to fibre optics, by the mid 1990s consumers may be able to have movies sent over the phone by punching a button – without leaving their La-Z Boys." Interactive TV and personalised commercials are not far off.



Personalised magazines are already here, albeit on a small scale. Joanne Lipman in *The Wall Street Journal* of 18 September 1989 reports that Time Warner, through Target Select, uses a computerised process known as selective binding to place different advertisements in different subscribers' magazine copies. Target Select will also use ink-jet printing to allow national advertisers to personalise their ads. "The day is here when magazine advertisements can be as personalised as direct mail" said Bruce Judson, Time Magazine Group's Director of Marketing. *Time* is already pursuing personalised editions that segment advertising content.

Growing technological sophistication has fragmented that medium too. An agricultural magazine in the United States changes its editorial content and its advertising depending on whether the reader is a farmer of corn, a farmer of wheat, a farmer of soy, or indeed a pork belly producer.

As Paul N. Mulcatry, Vice-President of Advertising for The Campbell Soup Company told *The New York Times* in October 1989, "Advertising is a slow build. [Promotions, particularly trade promotions,] represent quick and quantifiable hits, so we've taken the money and moved it." Campbell Soup last year also put 80% of the marketing budget for its dry soup division into advertising inside stores. To give its agencies an incentive to use alternative media in its marketing plans, they decided to pay a commission for these in-store ads, but at less than the traditional 15%. Advertisers are now looking for economies of scale in dispersed markets.

Response of the Media

There has been little evidence to contradict these trends until very recently when Coca Cola's Minute Maid, Frito-Lay, Kraft General Foods, R J Reynolds Tobacco Company and Procter & Gamble all indicated towards the end of 1989 that they were increasing brand spending. As Pierre Ferrari of Coca-Cola Foods said to *Advertising Age* on 4 September 1989, "I think of advertising as the engine pulling the train. If you take away the engine, the train will roll along for a while but eventually the train will slow."

Peter Tortorici, Vice-President of Planning and Scheduling at CBS, put it differently in September in *Adweek's* 'Marketing To The Year 2000', What makes us different from the other guys is that we have a delivery system that gets into every home with a TV. There will always be value to reaching the biggest audience."

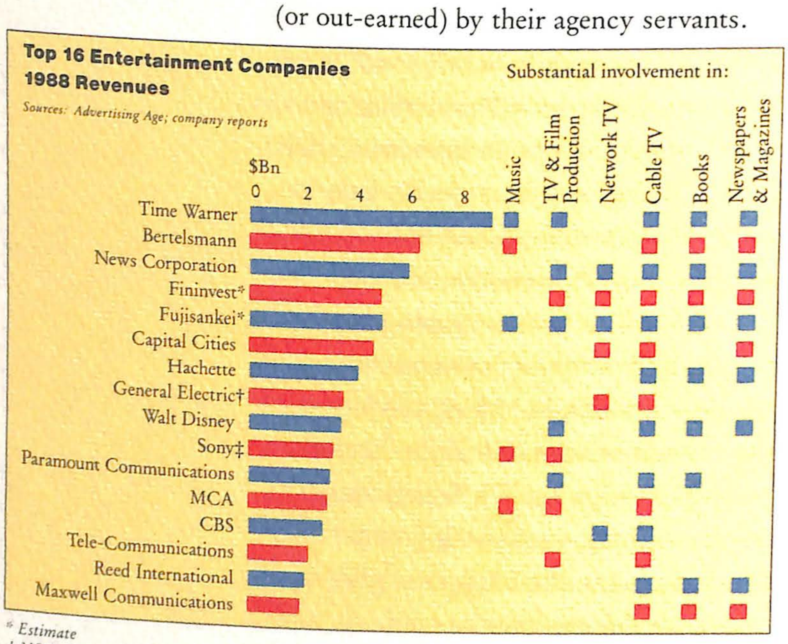
Whether all the vehicles of the newly fragmented media will be able to attract the necessary advertising is highly debatable. The main effect of satellite competition, at least in the short-to-medium term, may paradoxically be to reinvigorate the land-based broadcasting organisations, much as commercial TV did to the BBC in the 1960s. For example, both ITV and BBC are much more receptive to "publishing" new programme ideas from independents, while the ITV companies, in particular, have taken the opportunity to cut down on unnecessary staff, transform working practices and cut costs, at a time when income from advertising was booming.

Moreover, almost 50% of all adults in the 90s will be accounted for by "mature parents" (median age 47), "empty nesters" (median age 62), and "young parents" (median age 32). "Starting out singles" or yuppies will account for only 4%. As Alan Gottesman of Paine Webber points out in *Ad Libs* on 22 February 1990, "The larger advertising agencies are equipped to analyse and test work, relying less than perhaps smaller shops do, on speedily catching the next hot fashion. And if the demographic statistics are valid, it means that mass media are far from doomed. The idea of reaching 20% slices of the population through narrow-interest ad vehicles doesn't seem sensible."

Response of the Advertising Agencies

Agency consolidation

Non media alternatives to advertising have also received a boost from the merging of agencies, either physically, or under a corporate umbrella. Particularly where physical consolidation has taken place, such mergers have disturbed existing relationships with some clients who have either perceived conflicts of interest, or believed they were being upstaged (or out-earned) by their agency servants.



* Estimate
† NBC
‡ CBS Records and Columbia

It is perhaps ironic that the trend toward consolidation shows no sign of abating, largely because of continuing client rationalisation and the increasing pressure on agency compensation that results.

As Alan Gottesman points out in his *Ad Libs* on 29 March 1990, "The ten largest shops in the world saw their volume advance 12% last year, and their slice of the globe's total ad commission pie widen from 61% to 62.5%." Among United States brands "the industry leaders grew more than 8%; the industry itself less than 7%. Finally, the top ten US ad agencies grew at 10.6% versus 6.8% for the industry."

1988 and 1989 have seen increasing consolidation among both smaller and larger advertising agencies. One factor here is 1992. There have been several offers to US and UK marketing services businesses from privately-owned and bank-financed French groups, while the major Japanese agencies are expanding into the Pacific Rim and have their sights set on building their own networks worldwide.

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

The concentration strategy is based not only on cross-ownership of media, enabling media owners in the future to offer advertisers a complete media schedule, but cross-promotion as well. As *The Economist* put it on 23 September 1989, "The success of the new [media] empires will often depend on their ability to force out their competitors' products across a wide range of media. They will use gems from one part of the media to brighten another; movies for use on television, for example, or the use of one medium to puff another."

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

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

Client conflict

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

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

Compensation

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

Media buying

Centralised media buying has become an increasing concern to clients as a result of the escalating cost of television advertising. As Alan Gottesman also said, "The ability to negotiate the media maze is Part B of the epoxy that binds large-scale advertisers to the big ad agencies. (Good ad work is Part A)."

Last year J Walter Thompson Company joined The Ogilvy Group and Omnicom in The Media Partnership to form a joint media-buying operation. Interest in such arrangements tends to be more European than American. While the basic proposition behind mega-media outfits is sound – that is the more cost-effective purchase of media, particularly television – there are several areas of risk. First, who pays for the media-buying unit? Although it creates greater efficiency for the client, a separate unit is a cost to the agency: so should that cost be set against the discount negotiated?

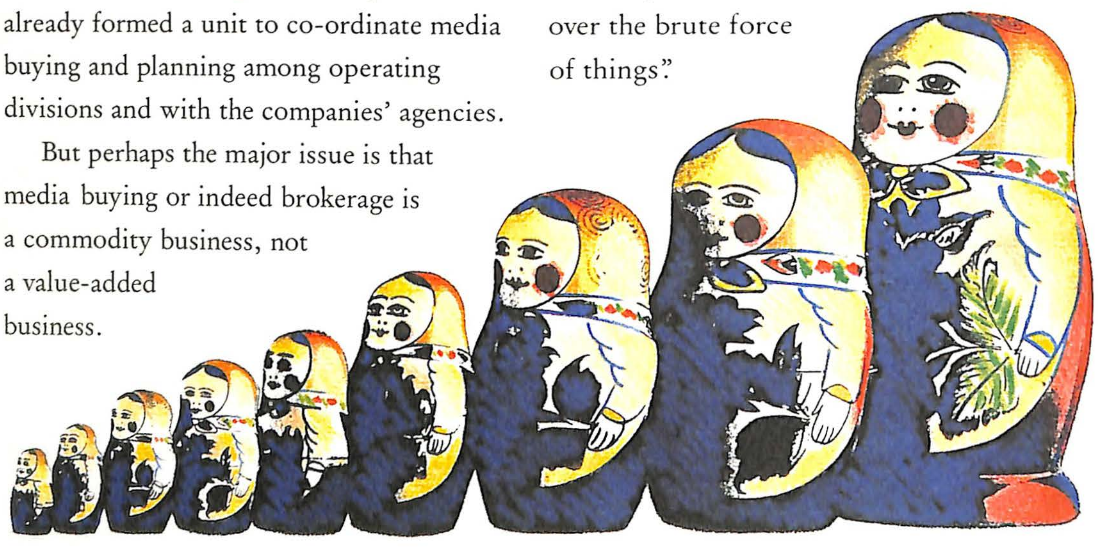
Secondly, how are issues of conflict dealt with? We do not necessarily mean the classic issues, where, for example, automobile manufacturer A competes with B; but where A outspends B, say 2 to 1 and yet receives the same level of discount. Is A subsidising B as a result?

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

Fourthly, the successful precedents have tended to be media brokers rather than media buyers, and ultimately clients may well demand the discount or assume the brokerage risk themselves. Finally, such media buying units may lead to the "unbundling" of agency services, which in turn will result in still greater pressure on compensation. Clients may well decide they can do the job themselves. Kraft General Foods Group, for example, has already formed a unit to co-ordinate media buying and planning among operating divisions and with the companies' agencies.

But perhaps the major issue is that media buying or indeed brokerage is a commodity business, not a value-added business. Success is determined by buying power and financial resource, not by the management of the imagination; which means that, in the long run, though media choice and strategy may be very much our business, media buying, in the sense of dealing, may not. It is a service that we have to continue to offer our clients in order to help them manage their costs more effectively; but is not a high added-value service of the kind that is our focus.

As George Gilder in his book *Microcosm: The Quantum Revolution in Economics and Technology,* writes: "In technology, economics and the politics of nations, wealth in the form of physical resources is steadily declining in value and significance. The powers of mind are everywhere ascendant over the brute force of things."



It is against this background that WPP Group continues to build a comprehensive group of companies, each with its own specialist skills: able not only to respond to clients' specific needs, but also to serve them on a co-ordinated basis.

1989 REPORT AND ACCOUNTS

BOARD OF DIRECTORS AND ADVISERS

WPP Group plc
D M Ogilvy *Chairman*
J J D Bullmore
S H M King
R E Lerwill
J A Quelch
G C Sampson
M S Sorrell
J R Symonds

N C Berry
A Biel
S L Galpert
M Richardot
D M Roberts
C F Schulten
D J Stevens *Secretary*

R J C Beanland
R Boyle
C J Coles
R Day
M Dodgen
J Drefs
R P Emmins
P A Forman
M Hill
M E Howe
S Goldstein
M W Hoban
J Kopchinsky
P Law-Gisiko
S Lewis
F McEwan
S R Mitchell
T Neuman
J Pessolano
M Rosen
C Sweetland
D P Tinkelman
J Treacy
L J Trencher

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27 Farm Street
London
W1X 6RD

Registered Office
Industrial Estate
Hythe
Kent
CT21 6PE

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

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

Bankers
Citibank, N.A.
336 Strand
London
WC2R 1HB

Midland Bank plc
Poultry
London
EC2P 2BX

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

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

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

Wertheim Schroder
& Co. Inc.
200 Park Avenue
New York
NY 10166

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

Solicitors
Calow Easton
18/19 Southampton Place
London
WC1A 2AJ

Davis & Gilbert
850 Third Avenue
New York
NY 10022

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

Property Advisers
James Andrew Badger
Limited
11 Waterloo Place
London
SW1Y 4AU

Auditors' Report

To the members of WPP Group plc:

We have audited the accounts set out on pages 41 to 63 in accordance with Auditing Standards.

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and of the Group at 31 December 1989 and of the profit and source and application of funds of the Group for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen & Co.
London

14 May 1990

Financial Calendar

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

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

Annual Reports
are posted to shareholders in May.

Annual General Meetings
are held in London in June.

Interim Dividends
on Ordinary shares are paid in January.

Final Dividends
on Ordinary shares are paid in July.

Dividends
on Convertible Preference shares are paid on 30 April and 31 October.

DIRECTORS' REPORT

The directors have pleasure in presenting their annual report, together with the audited accounts for the year ended 31 December 1989.

Profits and Dividends

The profit on ordinary activities before tax for the year was £75,039,000 (1988:£40,318,000).

The directors recommend a final dividend of 12.9p net per share which, together with the interim dividend of 11.3p net per share, makes a total of 24.2p net per share (1988: 17.8p).

The retained profit of £19,875,000 is carried to reserves.

Review of the Group

The Company is a holding company. The principal activity of the Group is the provision of marketing services worldwide. The Group expanded during the last year both by internal growth and by making several acquisitions, the largest of which was The Ogilvy Group, Inc.

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

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

Directors

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

	31 December 1989			1 January 1989
	Ordinary Shares	Preference Shares	Subscription Warrants	Ordinary Shares
D M Ogilvy	–	–	–	–
J J D Bullmore	3,000	15,900	375	3,000
S H M King	–	–	–	–
R E Lerwill	20,075	13,813	7,509	20,075
J A Quelch	400	–	–	400
G C Sampson	289,515	156,750	–	289,515
M S Sorrell	930,287	506,851	116,285	930,287
J R Symonds	12,547	10,000	–	12,547

On 14 May 1990 the interests of the directors were unchanged from 31 December 1989.

Mr R E Lerwill has been granted options in respect of a total of 115,888 Ordinary shares.

Professor J A Quelch retires by rotation and, being eligible, offers himself for re-election. Professor Quelch has no service contract.

Mr D M Ogilvy was appointed to the board on 26 June 1989. He therefore retires and, being eligible, offers himself for re-election. Mr Ogilvy has a fixed term service contract with the Company which is due for renewal on 30 June 1994.

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

Non-executive Directors

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

Jeremy Bullmore took up his post of non-executive director in 1988 after 33 years at J Walter Thompson, London, the last 11 as chairman. He was chairman of the Advertising Association from 1981 to 1987 and has written and lectured extensively on marketing and advertising. In 1985, he became a CBE.

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

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

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

Substantial Shareholdings

The Company has been notified that Walbrook International Trust Company Limited holds 5.04 per cent of the issued Ordinary share capital. The Company is not aware of any other holdings in excess of 5 per cent.

Close Company Status

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

Share Capital

The authorised share capital of the Company was increased during the year from £4,492,207 to £32,002,207 following approval by the shareholders in General Meeting.

The number of Ordinary shares in issue increased during the year from 39,707,643 to 41,098,703 primarily due to shares issued as part consideration for acquisitions. Additionally, 213,932,439 Convertible Cumulative Preference shares were issued through a rights issue to existing shareholders in June 1989.

Full details of all share movements during the year are given in note 18 to the accounts.

It is proposed to extend the existing power of your directors in relation to the allotment of Ordinary shares for cash in order to give your board continuing flexibility and shareholders' approval is therefore sought to disapply the pre-emption provisions of section 89(1) of the Companies Act 1985 in relation to Ordinary shares of a nominal value not exceeding £205,000.

DIRECTORS' REPORT

Disabled Employees

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

Employee Consultation and Involvement

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

The Executive Share Option Scheme is available to all full-time employees of the Group nominated by the directors of each company within the Group. Options have currently been granted to a total of 399 (1988:330) employees over a total of 3,127,428 (1988: 2,486,277) 10p Ordinary shares of the Company. The exercise of these options is generally conditional on the profit performance of the employee's company.

Charitable Contributions

The Group contributed £96,000 to UK charities in 1989.

Auditors

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

By order of the Board

D J Stevens
Secretary

14 May 1990

1 Basis of Accounting

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

2 Goodwill

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

3 Intangible Fixed Assets

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

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

4 Tangible Fixed Assets

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

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

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

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

5 Investments

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

6 Stocks and Work in Progress

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

ACCOUNTING POLICIES

7 Debtors

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

8 Taxation

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

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

9 Pensions

The Group has adopted the UK Statement of Standard Accounting Practice No. 24, Accounting for Pension Costs, with effect from 1 January 1989.

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

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

10 Turnover and Revenue

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

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

11 Translation of Foreign Currencies

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

The profit and loss accounts of overseas subsidiaries 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 1989

Notes		1989 £000	1988 £000	1989 $000	1988 $000
	Turnover	4,406,898	2,251,306	7,190,735	4,010,702
1	**Revenue**	1,005,453	547,129	1,640,598	974,710
	Gross Profit	843,032	441,816	1,375,575	787,095
	Other operating expenses (net)	(740,550)	(390,380)	(1,208,355)	(695,462)
2	**Operating Profit**	102,482	51,436	167,220	91,633
	Interest receivable	16,072	7,926	26,224	14,120
3	Interest payable and similar charges	(43,515)	(19,044)	(71,003)	(33,926)
	Profit on Ordinary Activities before Taxation	75,039	40,318	122,441	71,827
5	Tax on profit on ordinary activities	(34,532)	(18,930)	(56,346)	(33,724)
	Profit on Ordinary Activities after Taxation	40,507	21,388	66,095	38,103
	Minority interests	(2,306)	(266)	(3,763)	(474)
	Profit for the Financial Year	38,201	21,122	62,332	37,629
6	Preference dividends	(8,413)	–	(13,727)	–
	Profit Attributable to Ordinary Shareholders	29,788	21,122	48,605	37,629
6	Ordinary dividends	(9,913)	(7,033)	(16,175)	(12,529)
19	**Retained Profit for the Year**	19,875	14,089	32,430	25,100
7	**Earnings per Share**				
	Basic	73.0p	54.3p	$1.19	$0.97
	Fully diluted	71.2p	n/a	$1.16	n/a

The main reporting currency of the Group is the pound sterling and the accounts have been prepared on this basis. Solely for convenience, the accounts set out on pages 43 to 47 are also presented expressed in US dollars using the approximate average rate for the year for the profit and loss account (1989: $1.6317=£1, 1988: $1.7815=£1), the rate in effect on 31 December for the balance sheets (1989: $1.6125=£1, 1988: $1.8090=£1), and a combination of these for the statement of source and application of funds. This translation should not be construed as a representation that the pound sterling amounts actually represent, or could be converted into, US dollars at the rates indicated.

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

CONSOLIDATED BALANCE SHEET

As at 31 December 1989

Notes		1989 £000	1988 £000	1989 $000	1988 $000
	Fixed Assets				
9	Intangible assets	350,000	175,000	564,375	316,575
10	Tangible assets	156,583	86,378	252,490	156,258
11	Investments	19,774	4,678	31,886	8,463
		526,357	266,056	848,751	481,296
	Current Assets				
12	Stocks and work in progress	91,004	34,340	146,744	62,121
13	Debtors	648,778	266,405	1,046,155	481,927
14	Investments	6,759	13,912	10,899	25,167
	Cash at bank and in hand	233,617	92,591	376,707	167,497
		980,158	407,248	1,580,505	736,712
15	**Creditors:** Amounts falling due within one year	(1,149,858)	(437,079)	(1,854,146)	(790,676)
	Net Current Liabilities	(169,700)	(29,831)	(273,641)	(53,964)
	Total Assets Less Current Liabilities	356,657	236,225	(575,110)	427,332
16	**Creditors:** Amounts falling due after more than one year	(535,618)	(140,761)	(863,684)	(254,637)
17	**Provisions for Liabilities and Charges**	(151,170)	(34,603)	(243,762)	(62,597)
	Net (Liabilities) Assets	(330,131)	60,861	(532,336)	110,098
	Capital and Reserves				
18	Called up share capital	25,505	3,973	41,127	7,187
19	Share premium	192,721	–	310,763	–
19	Goodwill reserve	(797,811)	(150,603)	(1,286,470)	(272,441)
19	Other reserves	196,247	185,259	316,447	335,134
19	Profit and loss acccount	40,927	21,052	65,995	38,083
	Shareholders' Funds	(342,411)	59,681	(552,138)	107,963
	Minority interests	12,280	1,180	19,802	2,135
	Total Capital Employed	(330,131)	60,861	(532,336)	110,098

Signed on behalf of the Board on 14 May 1990

Directors

R E Lerwill

M S Sorrell

The main reporting currency of the Group is the pound sterling and the accounts have been prepared on this basis. Solely for convenience, the accounts set out on pages 43 to 47 are also presented expressed in US dollars using the approximate average rate for the year for the profit and loss account (1989: $1.6317=£1, 1988: $1.7815=£1), the rate in effect on 31 December for the balance sheets (1989: $1.6125=£1, 1988: $1.8090=£1), and a combination of these for the statement of source and application of funds. This translation should not be construed as a representation that the pound sterling amounts actually represent, or could be converted into, US dollars at the rates indicated.

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

COMPANY BALANCE SHEET

As at 31 December 1989

Notes		1989 £000	1988 £000	1989 $000	1988 $000
	Fixed Assets				
10	Tangible assets	756	665	1,219	1,203
11	Investments	353,140	249,956	569,438	452,170
		353,896	250,621	570,657	453,373
	Current Assets				
13	Debtors	292,058	17,974	470,944	32,515
	Cash at bank and in hand	10,640	2,650	17,157	4,794
		302,698	20,624	488,101	37,309
15	**Creditors:** Amounts falling due within one year	(62,143)	(13,579)	(100,206)	(24,564)
	Net Current Assets	240,555	7,045	387,895	12,745
	Total Assets Less Current Liabilities	594,451	257,666	958,552	466,118
16	**Creditors:** Amounts falling due after more than one year	(88,275)	-	(142,343)	-
17	**Provisions for Liabilities and Charges**	(9,076)	(6,619)	(14,635)	(11,974)
	Net Assets	497,100	251,047	801,574	454,144
	Capital and Reserves				
18	Called up share capital	25,505	3,973	41,127	7,187
19	Reserves	471,595	247,074	760,447	446,957
	Total Capital Employed	497,100	251,047	801,574	454,144

Signed on behalf of the Board on 14 May 1990
Directors
R E Lerwill
M S Sorrell

The main reporting currency of the Group is the pound sterling and the accounts have been prepared on this basis. Solely for convenience, the accounts set out on pages 43 to 47 are also presented expressed in US dollars using the approximate average rate for the year for the profit and loss account (1989: $1.6317=£1, 1988: $1.7815=£1), the rate in effect on 31 December for the balance sheets (1989: $1.6125=£1, 1988: $1.8090=£1), and a combination of these for the statement of source and application of funds. This translation should not be construed as a representation that the pound sterling amounts actually represent, or could be converted into, US dollars at the rates indicated.

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

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the year ended 31 December 1989

	1989 £000	1988 £000	1989 $000	1988 $000
Source of Funds				
Profit before tax	75,039	40,318	122,441	71,827
Items not involving the movement of funds:				
Depreciation	19,829	11,619	32,355	20,699
Increase in other provisions	2,285	1,962	3,728	3,495
Loss (profit) on disposal of tangible fixed assets	226	(468)	369	(834)
Minority interest in retained profit for the year	(2,306)	(266)	(3,763)	(474)
Total Funds from Operations	95,073	53,165	155,130	94,713
Funds from other sources:				
Increase in creditors due after more than one year*	68,999	49,428	111,261	89,415
Increase in minority interests*	11,100	115	17,899	208
Taxation and provisions assumed on acquisition of subsidiaries*	132,145	3,197	213,084	5,783
Proceeds of long term debt*	342,424	10,665	558,733	19,000
Proceeds from issues of ordinary and preference shares*	214,119	–	349,378	–
Proceeds from sale of tangible fixed assets	5,239	121,799	8,548	216,985
Exchange movements	9,928	(10,823)	22,559	(19,177)
Shares issued as part consideration of the acquisition of subsidiaries*	8,837	14,596	14,419	26,003
	887,864	242,142	1,451,011	432,930
Application of Funds				
Dividends paid	12,520	2,337	20,429	4,163
Taxation paid	56,953	16,230	92,930	28,914
Repayment of loans	6,542	68,546	10,675	122,115
Purchase of intangible fixed assets*	175,000	–	285,548	–
Purchase of tangible fixed assets*	84,569	21,800	137,991	38,837
Increase in fixed asset investments*	15,275	1,214	24,924	2,163
Goodwill arising on acquisitions of subsidiaries*	655,911	75,472	1,070,250	134,453
	1,006,770	185,599	1,642,747	330,645

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the year ended 31 December 1989

	1989 £000	1988 £000	1989 $000	1988 $000
Increase (Decrease) in Working Capital*				
Stocks and work in progress	56,664	(3,580)	91,371	(6,476)
Debtors	376,350	18,569	606,864	33,591
Investments	(7,153)	9,135	(11,533)	16,525
Creditors: amounts falling due within one year	(594,408)	3,926	(958,484)	7,101
	(168,547)	28,050	(271,782)	50,741
	49,641	28,493	80,046	51,544
Movements in Net Liquid Funds*				
Cash at bank	141,025	19,975	227,403	36,135
Bank loans and overdrafts	(91,384)	8,518	(147,357)	15,409
	49,641	28,493	80,046	51,544

*The effect of the acquisition of subsidiaries on the above statement was as follows:

Net Assets Acquired:	1989 £000	1989 $000	**Discharged by:**	1989 £000	1989 $000
Intangible fixed assets	175,000	282,188	Shares	8,837	14,250
Goodwill	655,911	1,057,656	Cash	617,187	995,214
Tangible fixed assets including investments	71,807	115,788			
Net current assets	(23,819)	(38,408)			
Long term creditors and provisions	(200,529)	(323,353)			
Taxation	(52,346)	(84,407)			
	626,024	1,009,464		626,024	1,009,464

The main reporting currency of the Group is the pound sterling and the accounts have been prepared on this basis. Solely for convenience, the accounts set out on pages 43 to 47 are also presented expressed in US dollars using the approximate average rate for the year for the profit and loss account (1989: $1.6317=£1, 1988: $1.7815=£1), the rate in effect on 31 December for the balance sheets (1989: $1.6125=£1, 1988: $1.8090=£1), and a combination of these for the statement of source and application of funds. This translation should not be construed as a representation that the pound sterling amounts actually represent, or could be converted into, US dollars at the rates indicated.

The accompanying notes form an integral part of this statement.

NOTES TO THE ACCOUNTS

1 Segment Information

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

	1989	1988
	£000	£000
United Kingdom	206,014	132,910
North America	522,893	288,347
Rest of the World	276,546	125,872
	1,005,453	547,129

Substantially all the North American revenue arises in the United States of America.

2 Operating Profit

	1989	1988
Operating profit is stated after charging (crediting):		
Cost of sales	162,421	105,313
Administration and other operating expenses	741,728	391,150
Other operating income	(1,178)	(770)
These amounts include:		
Depreciation of and amounts written off		
– owned tangible fixed assets	18,756	10,857
– assets held under finance leases and hire purchase contracts	1,073	762
Operating lease rentals		
– plant and machinery	8,428	3,710
– property	57,822	31,077
Hire of plant and machinery	1,350	450
Auditors' remuneration	2,371	1,365

3 Interest Payable and Similar Charges

	1989	1988
On bank loans and overdrafts, and other loans		
– repayable within five years, by instalments	359	395
– repayable within five years, not by instalments	11,494	8,554
	11,853	8,949
On all other loans	31,662	10,095
	43,515	19,044

4 Emoluments of Directors and Employees

	1989	1988
	£000	£000
Emoluments of directors and employees during the year amounted to:		
Wages and salaries	393,497	207,405
Social security costs	36,534	18,726
Other pension costs	16,802	11,120
	446,833	237,251

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

	1989	1988
	Number	Number
United Kingdom	3,602	2,221
Overseas	13,966	8,222
	17,568	10,443

Directors' emoluments:

Directors of the Company received the following remuneration:

	1989	1988
	£000	£000
Emoluments including profit related bonuses and pension contributions	1,165	833

The directors' emoluments shown above (excluding pensions and pension contributions) include £629,000 (1988: £505,000) in respect of the highest paid director. No emoluments were received by either of the chairmen who held office during the year in respect of their services in the United Kingdom.

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

	1989	1988
	Number	Number
£35,001 to £40,000	—	1
£40,001 to £45,000	1	–
£75,001 to £80,000	2	1
£160,001 to £165,000	—	1
£255,001 to £260,000	1	–

4 Emoluments of Directors and Employees *continued*

Higher-paid employees:

The number of employees of the Company whose remuneration, including performance related bonuses, fell in the following ranges was:

	1989 Number	1988 Number		1989 Number	1988 Number
£30,001 to £35,000	2	1	£70,001 to £75,000	1	2
£35,001 to £40,000	3	2	£75,001 to £80,000	2	–
£40,001 to £45,000	2	–	£95,001 to £100,000	1	–
£45,001 to £50,000	—	3	£110,001 to £115,000	1	–
£50,001 to £55,000	2	–	£115,001 to £120,000	2	–
£60,001 to £65,000	1	2	£130,001 to £135,000	1	–
£65,001 to £70,000	1	1			

5 Tax on Profit on Ordinary Activities

	1989 £000	1988 £000
The tax charge is based on the profit for the year and comprises:		
Corporation tax at 35% (1988: 35%)	7,228	3,892
Deferred taxation	6,025	(44,833)
Overseas taxation	21,279	59,871
	34,532	18,930

The Group's effective rate of tax is greater than the United Kingdom Corporate tax rate of 35% due to the significant level of overseas income.

6 Dividends Paid and Proposed

Preference		
8.25p (net) Convertible Cumulative Redeemable Preference shares of 10p each	8,413	–
Ordinary		
Interim payable of 11.3p per share (1988: 5.4p)	4,588	2,106
Final proposed of 12.9p per share (1988: 12.4p)	5,325	4,927
	9,913	7,033

7 Earnings per Share

The basic earnings per share have been calculated using the profit attributable to ordinary shareholders of £29,788,000 (1988: £21,122,000) and the weighted average number of Ordinary shares in issue during the year of 40,809,466 (1988: 38,870,137 shares), as adjusted for the effects of the rights issue in June 1989.

The fully diluted earnings per share has been calculated assuming the full issue of Ordinary shares for all exercisable Convertible Preference shares, Convertible Loan stock, Warrants and Options in issue at 31 December 1989.

8 Contributions to Consolidated Profit

The Company has taken advantage of the exemption in the Companies Act 1985 s.228 not to present its own profit and loss account. Included within the consolidated profit for the financial year is £41,423,000 (1988: £7,900,000) in respect of the Company's profits. The consolidated profit before tax includes £20,370,000 (1988: £4,600,000) contributed by companies acquired during the year.

9 Intangible Fixed Assets

	£000
Corporate brand names:	
Beginning of year	175,000
Additions at fair value to the Group – Ogilvy & Mather	175,000
End of year	350,000

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

10 Tangible Fixed Assets

a) Group

The movement in the year was as follows:

	Land and Buildings		Fixtures, Fittings &	
	Freehold	Leasehold	Equipment	Total
	£000	£000	£000	£000
Cost or valuation:				
Beginning of year	14,026	45,426	45,416	104,868
New subsidiaries	3,969	24,060	30,181	58,210
Additions	139	7,108	19,112	26,359
Disposals	(851)	(1,665)	(4,134)	(6,650)
Exchange adjustments	419	4,974	5,334	10,727
Revaluation	2,445	(350)	—	2,095
End of year	20,147	79,553	95,909	195,609
Depreciation:				
Beginning of year	111	6,354	12,025	18,490
Charge	146	4,780	14,903	19,829
Disposals	(12)	(100)	(1,073)	(1,185)
Exchange adjustments	34	411	1,447	1,892
End of year	279	11,445	27,302	39,026
Net book value:				
31 December 1989	19,868	68,108	68,607	156,583
31 December 1988	13,915	39,072	33,391	86,378

10 Tangible Fixed Assets *continued*

Leasehold land & buildings comprises £3,485,000 (1988: £2,120,000) held on long leasehold and £64,623,000 (1988: £36,952,000) held on short leasehold. Leased assets (other than leasehold property) included above have a net book value of £1,812,000 (1988: £1,373,000).

Basis of valuation: Fixtures, fittings and equipment are shown at cost. Land and buildings include certain properties professionally revalued during 1989, by Messrs James Andrew Badger (Surveyors & Valuers), on an open market, existing use basis. Other properties are included at historic cost. The amount included in respect of revalued properties is £16,444,000 (1988: £12,314,000); the historic net book value of such land and buildings is £8,542,000 (1988: £6,511,000).

b) Company

The movement in the year was as follows:

	Short Leasehold Property £000	Fixtures Fittings & Equipment £000	Total £000
Cost or valuation:			
Beginning of year	234	675	909
Additions	55	354	409
Disposals	—	(95)	(95)
End of year	289	934	1,223
Depreciation:			
Beginning of year	51	193	244
Charge	51	232	283
Disposals	—	(60)	(60)
End of year	102	365	467
Net book value:			
31 December 1989	187	569	756
31 December 1988	183	482	665

11 Fixed Asset Investments

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

	Group			Company
	Related Companies £000	Other Investments £000	Total £000	Subsidiaries £000
Beginning of year	3,170	1,508	4,678	249,956
Balances assumed on acquisition of subsidiaries	13,393	204	13,597	—
Additions	—	239	239	103,184
Share of related company profits	1,439	—	1,439	—
Exchange adjustments	(194)	15	(179)	—
End of year	17,808	1,966	19,774	353,140

Included within the Group's investment in related companies are UK listed investments of £6,100,000, which at 31 December 1989 had a market value of £8,180,000. Information on the Company's principal operating subsidiaries, associates and divisions is shown in note 22.

12 Stocks and Work in Progress

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

	Group	
	1989	1988
	£000	£000
Raw materials and consumables	561	360
Work in progress	88,634	32,425
Finished goods and goods for resale	1,809	1,555
	91,004	34,340

13 Debtors

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

Amounts falling due within one year:

	Group		Company	
	1989	1988	1989	1988
	£000	£000	£000	£000
Trade debtors	532,652	217,204	–	-
ACT recoverable	7,903	2,649	7,560	2,418
Corporate income taxes recoverable	13,156	7,133	3,870	2,773
VAT and sales taxes recoverable	4,700	3,863	180	125
Other debtors	28,165	11,931	580	839
Prepayments and accrued income	42,998	9,346	92	71
Amounts owed by subsidiaries	–	-	77,693	11,748
	629,574	252,126	89,975	17,974
Amounts falling due after more than one year:				
Other debtors	11,955	5,617	–	-
Prepayments and accrued income	7,249	8,662	–	-
Amounts owed by subsidiaries	–	-	202,083	-
	19,204	14,279	202,083	-
Total debtors	648,778	266,405	292,058	17,974

14 Investments

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

	Group	
	1989	1988
	£000	£000
Treasury bonds listed overseas, at cost	3,807	3,714
Unlisted investments, at cost	2,952	1,058
Investment listed in the UK and overseas, at cost	—	9,140
	6,759	13,912

The 1988 investment listed in the UK and overseas represented common stock of The Ogilvy Group, Inc.

There is no material difference between the cost and market value at 31 December 1989 of the Treasury Bonds.

15 Creditors: Amounts falling due within one year

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

	Group		Company	
	1989	1988	1989	1988
	£000	£000	£000	£000
Bank loans and overdrafts	117,439	32,597	30,408	-
Trade creditors	605,176	243,790	—	-
Taxation and social security	99,351	53,804	7,500	2,286
Due to vendors of acquired companies	11,691	9,108	—	1,700
Dividends payable and proposed	12,839	7,033	12,839	7,033
Deferred income	59,224	14,636	—	-
Other creditors and accruals	244,138	76,111	11,396	2,560
	1,149,858	437,079	62,143	13,579

16 Creditors: Amounts falling due after more than one year

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

	Group		Company	
	1989	1988	1989	1988
	£000	£000	£000	£000
Bank loans	426,470	92,257	88,275	-
Unsecured loan notes	15,066	6,855	—	-
Corporate income taxes payable	5,933	22,499	—	-
Due to vendors of acquired companies	1,219	1,039	—	-
Other creditors and accruals	86,930	18,111	—	-
	535,618	140,761	88,275	-

Bank loans payable at 31 December 1989 include US$630 million of unsecured borrowings assumed on the acquisition of JWT Group, Inc. and The Ogilvy Group, Inc. This debt is provided by a syndicate of international banks and is repayable in semi-annual instalments over the next seven years. Interest is payable at a variable rate linked to US$ LIBOR and for a majority of the borrowings is capped for the next four years.

The unsecured loan notes are repayable during the years 1991 to 1997. Certain of the notes carry warrants to subscribe for Ordinary shares of the Company, whilst others carry the right to be converted into new Ordinary shares of the Company (note 18).

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

	Group		Company	
	1989	1988	1989	1988
	£000	£000	£000	£000
Within 1-2 years	45,921	34,862	5,076	-
Within 2-5 years	218,504	27,236	62,670	-
Over 5 years	177,111	37,014	20,529	-
	441,536	99,112	88,275	-

17 Provisions for Liabilities and Charges:

Provisions for liabilities and charges comprise:

	Group		Company	
	1989	1988	1989	1988
	£000	£000	£000	£000
Deferred taxation	41,721	12,105	9,076	6,619
Property	54,691	-	–	-
Pension and other	54,758	22,498	–	-
	151,170	34,603	9,076	6,619

Deferred tax has been provided to the extent that the directors have concluded, on the basis of reasonable assumptions and the intentions of management, that it is probable that liabilities will crystallise. No provision is made for tax that would arise on the remittance of overseas earnings. At 31 December 1989, the provision for deferred taxation in respect of current timing differences amounts to £20,016,000 and in respect of non-current items amounts to £21,705,000.

Pension and other provisions includes £24,377,000 in respect of pension obligations.

17 Provisions for Liabilities and Charges *continued*

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

	Group			Company
	Deferred Taxation	Property	Pension & other	Deferred Taxation
	£000	£000	£000	£000
Beginning of year	12,105	—	22,498	6,619
Balances assumed on acquisition of subsidiaries	23,437	59,084	27,582	—
Charged (credited) to profit and loss account	6,025	—	2,285	2,457
Utilised	—	(2,976)	—	—
Exchange adjustments	154	(1,417)	2,393	—
End of year	41,721	54,691	54,758	9,076

18 Called-up Share Capital

	1989	1988
	£	£
Authorised:		
106,000,000 (1988: 44,800,000) Ordinary shares of 10p each	10,600,000	4,480,000
214,000,000 (1988: Nil) 8.25p (net) Convertible Cumulative Redeemable Preference shares of 10p each	21,400,000	-
200 (1988: 200) Deferred Redeemable Convertible shares of £1 each	200	200
10,000 (1988: 10,000) 'A' Ordinary Convertible shares of 10p each	1,000	1,000
10,075 (1988: 10,075) 'B' Ordinary Convertible shares of 10p each	1,007	1,007
Nil (1988: 100,000) 'C' Ordinary Convertible shares of 10p each	—	10,000
	32,002,207	4,492,207
Allotted called-up and fully-paid:		
41,098,703 (1988: 39,707,643) Ordinary shares of 10p each	4,109,870	3,970,764
213,932,439 (1988: Nil) 8.25p (net) Convertible Cumulative Redeemable Preference shares of 10p each	21,393,244	-
200 (1988: 200) Deferred Redeemable Convertible shares of £1 each	200	200
10,000 (1988: 10,000) 'A' Ordinary Convertible shares of 10p each	1,000	1,000
10,075 (1988: 10,075) 'B' Ordinary Convertible shares of 10p each	1,007	1,007
	25,505,321	3,972,971

During the year the Company allotted the following shares:
- 1,343,319 Ordinary shares with a nominal value of £134,332 and at a premium of £8,703,015 in consideration for the acquisition of subsidiaries.

- 47,741 Ordinary shares with a nominal value of £4,774 and at a premium of £181,415 in respect of the exercise of share options held by employees of the Group.

- 213,932,439 Convertible Cumulative Preference shares with a nominal value of £21,393,244 and at a premium of £192,539,195 through a rights issue to shareholders. These shares are ordinarily convertible at the option of the holder on 30 June and 31 December in each of the years 1990 to 2009 inclusive on the basis of £14.70 in nominal amount of Ordinary shares for every £100.00 in nominal amount of Convertible Preference shares held. After conversion of 75% of the Convertible Preference shares, the Company has the right to require the conversion of the outstanding balance.

The Company also issued during the year:
- 5,045,586 Subscription Warrants to Ordinary shareholders. Each warrant confers on the holder the right to subscribe for one Ordinary share of the Company on 30 June in each of the years 1990 to 1996 inclusive at a subscription price of £10.

- £2,695,000 of Convertible Unsecured Loan Notes. Holders representing £1,490,000 of the notes have elected to convert the notes into new Ordinary shares of the Company. Conversion is on 25 May 1990 on the basis of the average middle market quotation of the Company's Ordinary shares during the 30 business days up to 22 May 1990. The remaining loan notes forego the right to convert and are repayable in 1994.

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

Certain of the Group's unsecured loan notes carry warrants to subscribe for 875,000 Ordinary shares of the Company at a price of 890p per share (as adjusted for the effects of the rights issue in June 1989).

Options have been granted under the WPP Group plc Executive Share Option Scheme over a total of 3,127,428 (1988: 2,486,277) 10p Ordinary shares, exercisable between 1990 and 2000 at prices per share ranging from 390p to 823p (subject to adjustment in respect of the rights issue in June 1989).

19 Reserves

a) Group

Movements during the year were as follows:

	Share Premium £000	Goodwill Reserve £000	Other Reserves £000	Profit & Loss Account £000
Balance at beginning of year	—	(150,603)	185,259	21,052
Premium on shares issued during the year (note 18)	192,721	8,703	—	—
Goodwill arising on consolidation written off (note 20)	—	(655,911)	—	—
Revaluation of tangible assets	—	—	2,095	—
Currency translation movement	—	—	8,893	—
Retained profit for the year	—	—	—	19,875
Balance at end of year	192,721	(797,811)	196,247	40,927

Other reserves at 31 December 1989 comprise: Capital Reserve £1,847,000; Currency Translation Reserve £11,502,000; and Revaluation Reserve £182,898,000.

b) Company

Movements during the year were as follows:

	Share Premium £000	Merger Reserve £000	Profit & Loss Account £000
Balance at beginning of year	—	246,119	955
Premium on shares issued during the year (note 18)	192,721	8,703	—
Profit for the financial year	—	—	41,423
Dividends paid and proposed	—	—	(18,326)
Balance at end of year	192,721	254,822	24,052

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

20 Acquisitions

	The Ogilvy Group, Inc. ('Ogilvy') £000	Other Acquisitions £000	Acquisition Adjustments £000	Fair value to the Group £000
Assets acquired:				
Intangible fixed assets	–	–	175,000	175,000
Tangible fixed assets including investments	71,819	4,923	(4,935)	71,807
Net current assets	11,604	(364)	(35,059)	(23,819)
Long term creditors and provisions	(127,099)	(1,304)	(72,126)	(200,529)
Taxation	(5,854)	–	(46,492)	(52,346)
	(49,530)	3,255	16,388	(29,887)
Goodwill arising (note 19)				655,911
Purchase consideration				626,024

The effective date of acquisition of The Ogilvy Group, Inc. was 19 June 1989.

The balance sheets summarised above for companies acquired during the year are based on the records of those companies as at the date of acquisition, restated where necessary to conform to UK Generally Accepted Accounting Principles, including in particular the writing off to reserves of purchased goodwill carried in the companies' balance sheets.

In June 1989 Ogilvy moved into a new headquarters building in New York. The lease, entered into some years ago, entails commitments in excess of foreseeable requirements; in recognition of this appropriate amounts have been set aside, including US $72 million as acquisition adjustments.

Adjustments have also been made to reflect the fair value to the Group of certain assets and liabilities, including among others: provisions for bad debts and irrecoverable work in progress; post employment benefits; 'golden parachute' and other severance arrangements; and the write-off of irrecoverable tax assets. The significant brand value associated with Ogilvy has also been recognised.

21 Guarantees and Other Financial Commitments

a) Capital Commitments

At the end of the year, capital commitments were:

	Group 1989 £000	Group 1988 £000
Contracted for but not provided for	2,040	1,730
Authorised but not contracted for	2,127	226
	4,167	1,956

b) Contingent Liabilities – Acquisitions

Since 31 December 1989 the Group has made further acquisitions for initial consideration in cash and shares totalling approximately £10 million.

These acquisitions together with earlier acquisitions (excluding JWT Group, Inc. and The Ogilvy Group, Inc.) may give rise to further consideration which will be reflected as goodwill, in addition to the initial payments referred to above. Any further payments will be payable in cash and Ordinary shares of the Company dependent upon the level of profitability of these acquired entities over various periods up to 31 December 1995. It is not practicable to estimate with any reasonable degree of certainty the total additional consideration to be paid. However, the directors estimate that the maximum additional payments which may be payable would amount to:

	Payable in Shares £000	Payable in Cash £000	Total £000
Within one year from 31 December 1989	8,766	9,320	18,086
Within two to five years	70,296	92,129	162,425
Over five years	2,089	2,596	4,685
	81,151	104,045	185,196

The above analysis assumes that the vendors choose cash rather than shares where the option exists. Consideration received as shares must generally be retained by the vendors for a minimum period of three years.

Taking into account only profits from those companies entitled to receive future payments, there would be no reduction in the net assets of the Group over this period. The Group's cashflow projections for the same period indicate a net cash generation after taxation and dividends considerably in excess of these maximum contingent cash payments. The total future consideration payable in respect of these acquisitions has no material effect on the Group's fully diluted earnings per share (note 7).

c) Lease Commitments

The Group has entered into non-cancellable leases in respect of plant and machinery. The total annual rental (including interest) for 1989 was £8,428,000 (1988: £3,710,000). 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 1989 was £57,822,000 (1988: £31,077,000). The rents payable under these leases are subject to renegotiation at various intervals specified in the leases. The Group pays all insurance, maintenance and repairs of these properties.

The minimum annual rentals payable in 1990 under the foregoing leases are as follows:

	Group	
	Plant and Machinery	Property
	£000	£000
In respect of operating leases which expire:		
– within 1 year	3,820	12,372
– within 2-5 years	8,595	18,819
– after 5 years	1,568	47,672
	13,983	78,863

d) Pension Arrangements

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

	Group	
	1989	1988
	£000	£000
Defined contribution schemes	13,831	8,738
Defined benefit schemes	2,971	2,382
	16,802	11,120

Where defined benefit schemes exist the pension cost is assessed in accordance with the advice of qualified actuaries using, in general, the projected unit credit method. The latest actuarial assessments of the schemes were undertaken within the last two years. The major assumptions used by the actuaries were that in general the return on plan assets would be 9% and that both salary increases and pension increases would be 5%. The market value of the plan assets totalled £86m, and the actuarial value of the assets was sufficient to cover approximately 117% of the benefits which had accrued to members after allowing for expected future increases in salaries.

22 Principal Operating Subsidiaries, Associates and Divisions

The Company's principal subsidiaries, associates and divisions at 31 December 1989 are shown below together with a note of their activity and country of operation or registration. Companies or divisions marked with an * were acquired during the year. The Company directly or indirectly held 100% (except where indicated) of each class of the issued shares of the subsidiaries.

Company	Activity	Country
Strategic Marketing Services		
The Henley Centre for Forecasting	Strategic Marketing Consultancy	England
Media Advertising		
Cole & Weber*	Media Advertising	USA
Conquest Europe	Media Advertising	Europe
J Walter Thompson Company	Media Advertising	USA
LansdownEuro	Media Advertising	England
LGFE	Media Advertising	USA
Ogilvy & Mather Worldwide*	Media Advertising	USA
Scali McCabe Sloves (80%)*	Media Advertising	USA
– Abbott Mead Vickers (22%)*	Media Advertising	England
Public Relations		
Adams & Rinehart*	Public Relations	USA
Carl Byoir	Public Relations	USA
Hill and Knowlton	Public Relations	USA
Ogilvy & Mather Public Relations*	Public Relations	USA
Timmons & Co.*	Lobbying and Government Relations	USA
Market Research		
Millward Brown International*†	Market Research	England
MRB Group	Market Research	USA
Research International*	Market Research	England
Non-Media Advertising		
Coley Porter Bell*	Brand and Corporate Identity Design	England
Business Design Group	Graphics & Design	England
Greaves Hall	Graphics & Design	England
McColl Group	Graphics & Design	England
Oakley Young Associates	Graphics & Design	England
Sampson Tyrrell	Graphics & Design	England
SBG Partners	Graphics & Design	USA
The Walker Group/CNI	Graphics & Design	USA
VAP Advertising & Marketing Group	Graphics & Design	England
P&L International Vacationers	Incentive & Motivation	England

The Grass Roots Group (50%)	Incentive & Motivation	England
Einson Freeman	Sales Promotion	USA
Mando Marketing	Sales Promotion	England
Scott Stern Associates	Sales Promotion	Scotland
Promotional Campaigns*	Sales Promotion Consultancy	England
SAGE Worldwide*	Sales Promotion Consultancy	USA
The Marketing Consultancy*	Sales Promotion and Marketing Consultancy	England
MetroVideo	Audio Visual Products/Services	England
The Mighty Movie Company	Film & Video Production	England
Specialist Communications		
A Eicoff & Co.*	Direct Marketing	USA
Anspach Grossman Portugal	Corporate Identity	USA
Brouillard Communications	Business to Business Advertising	USA
Entertainment Group	Entertainment Industry Advertising	USA
EWA	Database Marketing	England
Harvard Group	Financial Services Marketing	USA
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
Reese Communications Companies	Public Affairs	USA
Seiniger Advertising*	Motion Picture Advertising	USA
Thompson Recruitment Advertising	Recruitment Advertising	USA
Tromson Monroe	Travel Industry Public Relations	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

†Millward Brown International's financial year end is 31 March. Millward Brown was acquired on terms whereby further consideration is payable based on the audited profits of Millward Brown over the five years ending 31 March 1994; accordingly the financial year end has not been changed. The 1989 Group financial statements include accounts in respect of Millward Brown prepared for the period from the date of acquisition to 31 December 1989.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the nineteenth Annual General Meeting of the members of WPP Group plc will be held at The Savoy Hotel, The Strand, London WC2 on 25 June 1990 at 12.00 noon when the following Ordinary business will be proposed:

1 To receive and, if approved, adopt the directors' report and audited statement of accounts for the year ended 31 December 1989.

2 To declare the dividend recommended by the directors.

3 To re-elect as directors
a) Mr D M Ogilvy
b) Professor J A Quelch

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

And the following Special business will be proposed:

To consider and if thought fit to pass the following Special Resolution:
5 That the directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 to make allotments of equity securities as if sub-section (1) of Section 89 of the Companies Act 1985 did not apply to any such allotment provided that this power shall be limited to the allotment of equity securities up to an aggregate nominal value of £205,000; that this power shall expire at the Annual General Meeting of the Company to be held in 1991, save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry, and the directors may, notwithstanding such expiry, allot securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

6 To transact any other business proper to an Annual General Meeting.

By Order of the Board
D J Stevens
Secretary

Industrial Estate
Hythe, Kent CT21 6PE
14 May 1990

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

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

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

1 A statement of the transactions of each director and his family interests in the shares of the Company.

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

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