Operating and financial review

Competitive performance

There is still a significant profit opportunity in matching the operating margins of the best-performing competition. The best-performing competitive listed holding companies, The Interpublic Group of Companies Inc. ('IPG') and Omnicom Group Inc. ('Omnicom'), achieve 16-18% operating margins, whilst their best-performing individual agencies such as McCann-Erickson Worldwide and BBDO Worldwide are estimated to achieve operating margins of as much as 20%. This compares to a WPP parent company margin of 14.0% and reported combined margins of the Ogilvy & Mather Worldwide, J. Walter Thompson Company and Y&R Advertising brands of 18%.

Historically, listed public relations companies showed operating margins of more than 10% which have now been more than matched by our own operations. Operating management has indicated that margin performance can be improved further.

The Group is targeting an improvement in operating margin of 1% in 2001 to 15% and 15.5% by 2002, to bring us in line with the best performing of these competitors.

One of the Group's most important objectives is to increase its rate of organic revenue growth which is a key measure of the success of its value-added strategy. Excluding acquisitions, this was approximately 15% in 2000, a rate of growth that, although delightful, is clearly unsustainable in the long term.

Comparison with our competitors is difficult given that, to the best of our knowledge, they define organic growth rates differently absorbing acquisition revenues into organic growth rates more quickly. If we were to use their method of calculation, our organic growth rate would have been closer to 19%. Clients in the high revenue growth areas of information and technology, telecommunications, healthcare, financial services and entertainment and media now account for almost 28% of Group revenues. As a benchmark at the end of 2000 these sectors (excluding healthcare) accounted for approximately the same percentage of the FTSE 100 by market capitalisation.

Geographic performance

Economic conditions in North America are now, to say the least, more challenging. The UK and Continental Europe, however, particularly France, Germany, Italy and Spain are currently stronger, along with Asia Pacific and Latin America. Our fourth quarter performance in 2000 reflected this pattern with the US and UK performing in line with expectations and Continental Europe, Asia Pacific and Latin America performing more strongly than forecast. Recent relaxation in monetary policy on both sides of the Atlantic may stimulate those economies in the second half of the year.

However, it may well be that the real economic challenge may come not in 2001 but in 2002, if lower interest rates and US tax cuts overheat the economy and general inflation and wages rise beyond the rates of 3-4% that we have become used to in the 1990s. Your Board continues to believe that Asia Pacific, Latin America, Africa, the Middle East and Central and Eastern Europe will offer superior opportunities for growth in the medium to long term. These markets now account for more than 18% of the Group's revenue as opposed to 13% in 1992, and more than 20% if our share of associates' revenues are included. These markets are still forecast to continue to grow at significantly faster rates than those of North America and Western Europe in the long term.

WPP, according to the *Advertising Age* Agency Report, ranks in the top three in all of the 10 fastest-growing markets of the world.

Sector performance

On the following pages the heads of our nine operating brands summarise their operational activities and highlights for 2000.

Competitive performance Revenue per head $000

WPP	99†	126.0
	00†	128.4
O&M/JWT/Y&R/MindShare	99†	112.9
	00†	120.6
Omnicom	99	130.5
	00	124.3
IPG	99	122.0
	00	129.6

†Constant currency

Geographic performance Constant currency revenue growth %

North America	99	16.8
	00	29.8
United Kingdom	99	10.5
	00	22.5
Continental Europe	99	11.0
	00	47.2
Asia Pacific, Latin America, Africa & Middle East	99	4.0
	00	38.2

Sector performance Constant currency revenue growth %

Advertising, media investment management	99	5.2
	00	33.8
Information & consultancy	99	13.9
	00	19.8
Public relations & public affairs	99	30.5
	00	75.6
Branding & identity, healthcare and specialist communications	99	19.2
	00	27.6

PBIT margins %

WPP	99	13.4
	00	14.0
O&M/JWT/Y&R/MindShare	99†	16.4
	00†	17.4
Omnicom	99	16.0
	00[1]	15.9
IPG[3]	99	16.6
	99[2]	16.6
	00	17.9

†Constant currency

Operating margins by geography %

North America	99	14.8
	00[4]	14.9
United Kingdom	99	11.8
	00[4]	11.8
Continental Europe	99	13.1
	00	14.0
Asia Pacific, Latin America, Africa & Middle East	99	11.7
	00	13.8

Operating margins by sector %

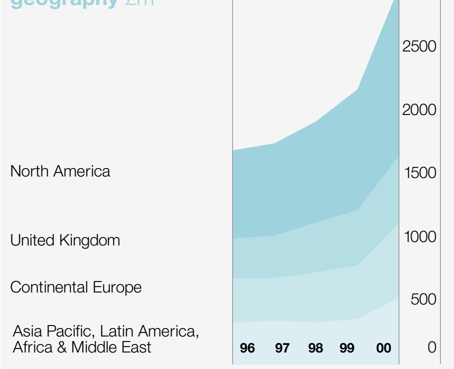
Advertising, media investment management	99	15.4
	00	16.5
Information & consultancy	99	10.0
	00[4]	10.1
Public relations & public affairs	99	13.3
	00[4]	13.1
Branding & identity, healthcare and specialist communications	99	12.3
	00	12.1

Staff cost to gross margin ratio %

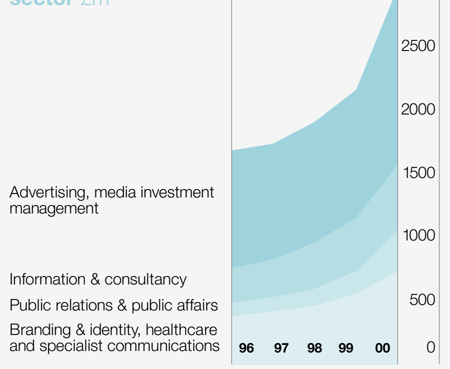
WPP	99	58.8
	00	59.1
O&M/JWT/Y&R/MindShare	99†	56.4
	00†	56.5
Omnicom	99	59.5
	00	59.0
IPG	99	56.5
	99[2]	55.2
	00	55.5

†Constant currency

Revenue by geography £m



Revenue by sector £m



[1]PBIT margin for Omnicom as presented for 2000 is stated excluding the gain on disposal of an investment in Razorfish Inc. of $110m. Including the gain, PBIT margin was 17.7%.
[2]Based on profit and loss restated for pooling of interests.
[3]PBIT margin for 2000 as presented above excludes restructuring and merger costs of $116.1m and Deutsch transaction costs of $44.7m, and for 1999 excludes restructuring and merger costs of $84.2m. After these charges PBIT margin for 2000 was 15.1%, and for 1999 was 14.7% (14.9% as restated for pooling of interests).
[4]Reflects restructuring costs incurred following the acquisition of Young & Rubicam Inc.

Advertising and media investment management

On a reported basis, combined advertising and media investment management revenues at Ogilvy & Mather Worldwide (which was named by *Adweek* the United States Agency of the Year in 2000), J. Walter Thompson Company, Y&R Advertising, Red Cell (formerly Conquest), MindShare and The Media Edge rose by almost 34%. The combined operating margin of this group of companies was 16.5%. Combined operating costs rose by 32% and the combined staff costs to revenue ratio excluding incentive payments fell to 52.6% from 53.7%.

In 2000, Ogilvy & Mather Worldwide generated net new billings of £515 million, J. Walter Thompson Company £373 million and Y&R Advertising (fourth quarter only) £28 million.

Also in 2000, MindShare generated net new billings of £1.5 billion. Plans are being developed to create a 'WPP media' parent company which, like Kantar in information and consultancy, will seek to add value to our clients and our people through 'tribal' co-operation.

Red Cell's revenues rose almost 11% and operating profits and margins were up significantly. Net new billings were £13 million.

Ogilvy & Mather Worldwide

Simply put, Ogilvy had another great year. In a world exploding with new technologies, new media and new global markets, clients are tending to their brands as never before, making Ogilvy more relevant than ever.

We have long been advocates of branding – a principle that goes back to David Ogilvy. Our revival of this philosophy as Brand Stewardship seven years ago both linked us to our past and positioned us for our future. We have since expanded that focus beyond traditional media to encompass every point of contact with the consumer. This has become our guiding star: creating integrated, multi-disciplined, brand-based and consumer-focused communications. That makes *360 Degree Brand Stewardship* Ogilvy's core business strategy and one that fits well with today's marketplace.

What makes our claim solid on this strategy is its pedigree. For decades we have had a multi-disciplined approach with robust direct marketing and public relations divisions, and even a veteran interactive unit. We broke ground in this discipline 16 years ago, and today we are the leading interactive agency in terms of global reach, financial strength, growth (50% in 2000), creativity and innovation. (*Adweek* named OgilvyInteractive its 2000 Integrated Agency of the Year.) These units are the growth engines of our company.

The greatest benefit of our *360 Degree* strategy is that it gives us a unifying point of view – one that takes full advantage of our range of talent and capabilities. For this reason, we continue to expand our services beyond our core strengths to such growing areas as brand consultancy, design, healthcare, mobile communications, loyalty marketing and CRM initiatives. Through the start-up of new units, strategic acquisitions and joint ventures, and our relationships with the WPP family of companies, we are building a *360 Degree* network that is unparalleled.

As a result, I believe the agency is in the strongest position it has been in years. Once again, all regions are performing well, with many key markets – the US, France, India, Philippines, Brazil, Mexico and Guatemala among them – being singled out for local top agency accolades.

Our continued focus on our work has made it better. Certainly we have more offices in more countries contributing to our creative reputation, as attested by another strong year in terms of awards. Importantly, many of these awards came from beyond advertising, and that reflects our growing weight as a creative force in multi-discipline and integrated marketing. All told, our people, our operations and our work netted well over 250 different honours from all industry sectors.

Our client roster continues to be the envy of the industry, including such clients as IBM, American Express, Unilever, Kraft, Kodak, Ford, Nestlé, BP, Telefonica and Terra Networks. Our share across the board with these and other clients has been growing with assignments that are broad and increasingly multi-disciplined.

While growth with existing clients is paramount, last year we added several important new brands, led by the assignment of Motorola's global account. In total, we added close to $1 billion in new billings.

I am very optimistic about this coming year. We have a superb strategy, and we are committed to delivering it – everywhere it counts, in each office, for each client, every day. That's where the promise of *360 Degree Brand Stewardship* translates into success for our clients and for us.

Shelly Lazarus

Shelly Lazarus
Chairman and chief executive officer
Ogilvy & Mather Worldwide

Peter Schweitzer
President and chief executive officer
J. Walter Thompson Company

J. Walter Thompson Company

J. Walter Thompson continued its strong forward momentum in 2000. We posted one of the best new business, revenue and profit performances in our 137-year history. In addition, we accelerated our transformation to a total communications company by deepening our roster of superior talent and capabilities in every marketing discipline.

Net new billings (in constant currency) won worldwide totalled $615 million. We welcomed a host of new blue-chip clients including Sun Microsystems, KPMG, iPlanet, Spencer Stuart, Foster's Beer, Avon and Telecom Italia. In addition, we were entrusted with significant new assignments from valued current global clients including Ford, Unilever, Nestlé, Diageo/UDV, Qwest, Philip Morris and Pfizer.

Our company generated dynamic growth across the board in every region, led by the United States and Europe. Latin America rebounded strongly after a difficult 1999 and Asia Pacific continued its sustained improvement.

We broadened JWT's global reach and invested in premier resources to extend our service offering in specialised communications. Our network expanded to 311 offices in 155 cities in 90 countries, serving leading marketeers in virtually every category of goods and services.

Our solid financial and creative foundation enabled us to complete more than 20 strategic acquisitions worldwide. Top-flight companies joined our ranks in every discipline with particular emphasis on digital branding, direct response, database and promotional marketing.

JWT now holds majority stakes in: TMI, a full-service agency operating in eight Middle East countries and APCU Thompson Asociados, a general agency operating in six Central American countries. We also increased our stake in one of Israel's pacesetting agencies, Tamir Cohen.

In addition, our line-up of digital and technology communications companies was enhanced with the addition of Tonic 360, San Francisco; Imagio/JWT, Seattle; Coolfire, New York; Interactive Marketing Concepts, Toronto; and Thompson Digital Korea; as well as Go Direct Marketing, a database firm in Toronto and Vancouver.

Our diversified communications and marketing services companies achieved significant growth:

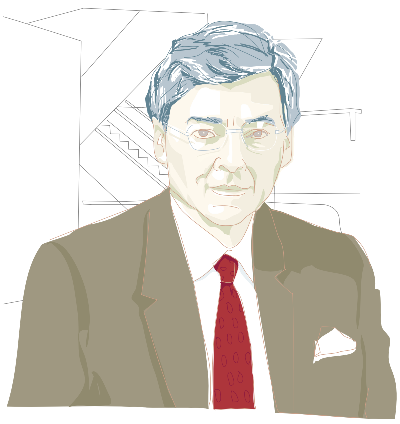
- ThompsonConnect, our global direct marketing subsidiary, with 600 professionals in 15 countries, grew to $76 million in revenue.
- JWT Specialized Communications, our recruitment and employee communications firm, with a global reach of 600 professionals in 34 offices, rose to $75 million in revenue. The group continued to diversify into high-growth areas such as technology advertising and mature market communications.
- digital@jwt, our full-service interactive and digital brand marketing arm, made progress in forging its worldwide network and delivered award-winning work. It is becoming a recognised force in new media, with 450 professionals and nearly $50 million in revenue.

We launched several research initiatives to understand more deeply how people consume communications, extending JWT's renowned heritage of brand learning. These efforts are driving the creation of new tools aimed at providing leading-edge brand communications planning in the year ahead.

In sum, we became a stronger marketing partner better able to deliver integrated solutions for our clients, using our proprietary approach called *Thompson Total Branding*.

The entrepreneurial spirit of our people is our most valuable competitive advantage. Their single-minded focus on great ideas that build relationships between brands and consumers – ideas with the power to resonate across the entire communications spectrum – will ensure our leadership in a marketing landscape whose only constant is warp speed change.

Peter Schweitzer



Mike Dolan
Chief executive officer
Young & Rubicam Inc.

Young & Rubicam Inc.

The year 2000 was a year of great transformation for Young & Rubicam Inc. – a year in which we defined our strategy for the future by joining the WPP Group of companies.

We share a number of key clients with WPP. That makes the transition simpler. But even more important, we share common philosophy and values. Joining WPP will help us deliver the most powerful communications programs to our clients. At the same time, we are confident that our singular 30-year history of building brands through integrated communications will add value to the entire WPP network.

Philosophically, Young & Rubicam fits easily into the Group: Young & Rubicam is a global group of people, disciplines and companies dedicated to bringing our clients the best in commercial persuasion. Our goal is to build powerful, sustainable brands... to move minds, move products and help drive marketplace results.

We often say that our currency is ideas. Ideas that are founded on an exhaustive knowledge of our audiences, executed through the industry's broadest range of communications disciplines. That the essence of Young & Rubicam is knowing when and how to integrate these disciplines to create persuasive messages that can travel the world.

We do it by organising ourselves around our clients – across all disciplines and geography. Our dedicated brand teams give our clients the best of both worlds: the size and muscle of a world leader in marketing and the nimbleness and flexibility of an entrepreneurial enterprise.

In 2000 we reaffirmed this commitment to client focus through several key initiatives. We named Satish Korde president, Client Solutions, in charge of our key corporate accounts, and designated top-management accountability for each of our major clients. Lessons learned at this level resound with all of our clients everywhere.

Some time ago, we coined the phrase, *Best Alone, Better Together*. It's still the best description of what drives our success. Our strength together is predicated on the individual strengths of our partner companies, each a top-ranking leader in its field. Each lending particular expertise to a client problem. Each company profitable in its own right, with its own core group of clients, accomplishments and credentials.

At Y&R Advertising, Ed Vick returned as chairman and CEO, after serving as chief creative officer for Y&R Inc. In this year of change, the agency suffered some difficult and high profile account losses – US Kraft business, United Airlines, Ericsson, KFC, USPS, Ford Europe, among them.

These were counterbalanced by a strong new business momentum. Wins included Computer Associates, Xenical, Pennzoil, Marks & Spencer, Scotts Co., Ford's Land Rover, NASCAR, additional business from Sony, as well as Chanel's global media business. The agency launched a new integrated unit, Brand Buzz, that grew to be a $60 million agency in its first year of operation. In London, Y&R acquired The Partners, a premier brand design firm.

At Y&R's media planning, buying and placement services operation, The Media Edge, important new global product offerings gained momentum in 2000, including The Digital Edge and TME 360, a total communications offering that is acting as a cultural change agent within TME. TME's Media Convergence was created to help clients wade through the dizzying array of interactive media options that are available now, as well as those soon to come. Industry recognition was high: *Advertising Age* named TME the Media Agency of the Year in the US. 'Agency of the Year' honours were also bestowed upon TME Canada and Australia, and numerous awards for people and work marked a strong performance.

At Impiric, new capabilities in consulting, interactive services and customer dialogue were added in 2000. With these forward-looking changes also came the recognition that the company must also be true to its direct marketing roots. New regional leadership at our flagship New York agency and in Europe has already had a positive impact.

At the start of 2001, the appointment of Daniel Morel as the new chairman and CEO strongly positions Impiric for the future.

Under the leadership of Ron Bess, the Diversified Communications Group delivered a strong performance last year.

In 2000, Burson-Marsteller strengthened its commitment to the distinguishing features and initiatives that position Burson-Marsteller as an industry leader. Global capabilities, groundbreaking research, technology focus, and client service have positioned the company for continued growth and innovation.

Notable achievements included an e-fluentials study that identified, for the first time ever, a group of opinion makers who have an exponential influence shaping and driving public opinion through the internet. Three new investments in technology were BM3W, FastForward – both of which returned a profit in their first month of operation – and Speed Branding.

At Cohn & Wolfe, new business came from Orange, Microsoft, Pfizer, DuPont and Sony. The network expanded to include Kendo in Paris and new offices in Madrid and San Francisco, and Cohn & Wolfe was named Best Healthcare Agency in the UK.

At Landor Associates, new brand identities were launched for numerous major clients, including BP, France Telecom, NYSE (the New York Stock Exchange), Delta, Corning, 7UP and bmi british midland. In 2000, Landor also strengthened its network, both in the US, where the company acquired the brand strategy consulting firm of St. James, and globally, with the addition of new offices in Vienna, Dubai and Singapore.

Sudler & Hennessey added Roche business in the US and Europe, as well as a global campaign for professionals for Roche Tamiflu. The network was strengthened by the addition of S&H consumer groups in New York, London and Milan; digital health strategies – Avenue-e – in Milan, Melbourne and Frankfurt; Sentrix global health communications in Short Hills, Paris, Milan and Munich, as well as a Precept education service in Short Hills.

The Bravo Group continued to provide critical marketing services to clients targeting Hispanic audiences in the US. New units of the agency included BravoMed, a healthcare specialty unit; Bravo 2.1, seamlessly integrating on-line and off-line communications, as well as BravoLateeno, which helps clients reach the bi-cultural, bilingual Latino youth segment.

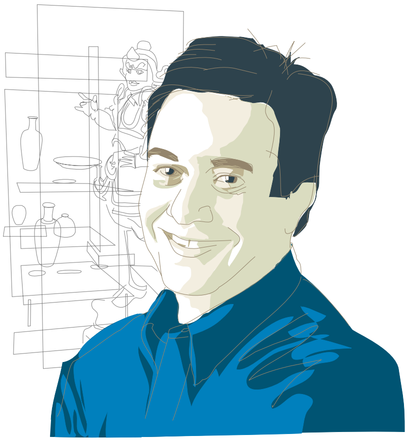
In its 15th year of operation, Kang & Lee went to market with the largest single campaign done by the agency: integrated advertising programs for the US Census Bureau that targeted 13 ethnic groups in 14 languages. Research for the campaign earned the agency the prestigious Ogilvy Research award.

Finally, Young & Rubicam acquired Robinson Lerer & Montgomery, one of the world's premier strategic communications firms.

In joining WPP, Young & Rubicam has made important changes, restructuring the organisation to make us leaner, more focused and better directed. We are a better company than we were a year ago. There is a wonderful depth of talent and commitment that resides in all of our companies across the world.

Raymond Rubicam liked to say that every generation of Y&R would have to reinvent itself for its own time. We have done so in 2000. We enter the 21st century with tremendous confidence about our future, and a real eagerness to demonstrate the power of Young & Rubicam's integrated communications.

Michael Dolan



Luca Lindner
Chief executive officer
Red Cell
(formerly Conquest)

Red Cell

2000 has been a great year for each of the four founding companies of Red Cell: European-based Conquest, US agency Cole & Weber, UK marketing communications group Perspectives and Asia Pacific alliance partner, Batey.

Together, they have created a new global communications network focused on the needs of 'challenger brands.' Individually, each company grew in terms of revenues, awards and client wins, including OCBC Bank and TNT Air Express in Asia, Freight Traders in the UK, Atkins Nutritionals and Nike ACG in the US, Celanese in Germany and Grapes Telecom across Europe.

To deliver global brand building communication solutions, Red Cell employs fundamentally new rules of engagement, consciously seeking deep and broad creative talent and having at its core the capability to react quickly and effectively to shifting market opportunities. A thousand talented people in Düsseldorf, London, Milan, Paris, Seattle, Singapore and 16 other key business centres, work locally or globally for brands such as Alfa Romeo and Ermenegildo Zegna.

Most agencies have the fundamental skills to work for a variety of clients and established agencies have proven to be highly successful for established brands.

Our business focus is different. Challenger opportunities – people, brands, or companies in need of rapid change – are seeking a new breed of agency. Red Cell's singular focus is to deliver global communication strategies for these challenger opportunities.

A challenger brand can be a fast growing private company in the luxury business or financial service market, or a group of managers within a large multinational fmcg corporation with a need to revitalise an existing brand. It is not about size, but rather the brand attitude and life cycle condition that defines challenger brands.

At Red Cell we use *BrandStorm* to provide clients with fresh and challenging solutions to their business opportunities. *BrandStorm* is an inclusive forum which empowers clients, account and creative managers and planners to work collaboratively from the outset of a project. This 'collective partnership' mentality delivers results in half the time typically experienced with conventional agencies.

Finally, at Red Cell we believe that in a globalised and internet-connected world there is a fantastic opportunity to work with the best talent in the world. The location and employment status of talent is increasingly irrelevant. We are building a community, *The Eclectic Network*, of exceptional creatives, financial analysts, brand architects, and individuals from the movie industry, all with proven communication and brand building skills – Sir Bob Geldof being an excellent example. Every Red Cell partner in charge of a client's brand will have the ability to leverage the gold mine of talent represented by *The Eclectic Network*.

Luca Lindner

Irwin Gotlieb
Chairman and chief executive officer
MindShare

MindShare

In 2000, MindShare continued to dominate the media marketplace as the world's largest media investment management company with annual billings growing to $20 billion, and global new business wins of $2.6 billion.

As MindShare Worldwide enters its fourth year as a stand-alone media investment management company, we are distinguished by our depth of talent around the world, the sophistication of our research and systems, our strategic capabilities and the power of our media investment clout in almost every market in which we operate.

Because of our global size, we are able to invest efficiently in research and systems initiatives that benefit the entire organisation and provide us and our clients with proprietary insights to the ever-changing media landscape and how consumers everywhere interact with media. As media convergence becomes a reality, MindShare is taking a leadership role in bringing to our clients all that technology offers.

MindShare's position as the largest global media network was solidified in 2000 with the launch of MindShare North America. In the US, MindShare quickly established its leadership in the market with several significant new business wins that truly united our operation. These wins include the consolidated media accounts of major clients Unilever and Sears.

By bringing together a management team that represents the best and brightest in all aspects of media investment management, MindShare US earned the moniker 'LionsShare' by trade publication *Advertising Age* in 2000. The US operation has offices in nine cities and first-in-class local and national broadcast capabilities, in addition to research, strategic, non-traditional, promotion, and new media offerings.

In addition to our success in the US, MindShare experienced significant growth in Europe, Asia and the growing Latin American market. Dominic Proctor, our chief operating officer, has been integral to the roll-out worldwide. We have attracted several top media executives from our major competitors in Europe, Asia and Latin America, and had an equally impressive new business run in these regions. Major new regional clients include Nike and Volvo signing on with MindShare Europe, Terra giving us assignments in Mexico and Hang Seng Bank awarding MindShare Hong Kong its business. We've also had important local wins such as Allianz in Germany, Bass in the UK, National Lotteries in Sweden and Belgium, and Kraft in Italy, Greece and the Czech Republic.

Media consolidation continues to be the trend that drives much of our regional and global growth. Numerous new clients awarded MindShare their global media business, including Boots, easyEverything, KPMG and Lufthansa.

As we look forward, key growth will come from additional media consolidations as well as the development of our unique specialist offerings that set us apart in key regions of the world. Our ATG research systems represent a truly global proprietary initiative. Our revolutionary MindCast operation creates television content for clients in China, and soon in Japan and Thailand. M-Digital provides interactive competency and capabilities that will be critical as we evolve to a converged environment, and already accounts for more online billings than any other agency in the world.

We see the next year as one in which we continue to break new ground in bringing new media solutions to our clients around the world and to lead the industry in the development of innovative research and systems. With the professionals we have in place around the world, MindShare is poised to continue its leadership position in all areas of media investment management.

Irwin Gotlieb

David Jenkins
Chief executive officer
The Kantar Group

Information & consultancy

The Group's information and consultancy businesses continued their strong revenue growth with gross profit rising by almost 20% and operating margins up slightly over the previous year. Particularly strong performances were recorded by Millward Brown in the United States, United Kingdom, Germany, Hungary, the Czech Republic, Singapore, Japan and Australia; by Research International in the United States, Germany, Greece, Japan, South Africa and Brazil; by Kantar Media Research at BMRB in the United Kingdom; by IMRB in India; and by Goldfarb Consultants in Canada, Italy and the United Kingdom.

The Kantar Group

Last year I talked of 1999 being a year of laying foundations to better serve our clients' needs and to seize the opportunities presented to our industry by e-commerce and the internet. I am pleased to report that in 2000 we saw payoff for much of that preparatory work with organic revenue growth ahead of the market and strong operating margin improvement. This organic growth was supplemented by the successful integration and development of our major 1999 acquisitions. During 2000, we acquired SIFO, the largest research company in Scandinavia, as part of Research International, and Ergo, the largest qualitative research company in Spain, as part of Millward Brown.

Research International's major initiative last year was its Project 100 program. Designed to improve service levels to major global and important local clients, Project 100's watchword is *focus*… focus on key clients, where Key Account Directors have been appointed for the top 40 clients, and focus on core areas of research expertise.

Operationally, RI's critical mass in the US market was improved by its merger with the Winona Group, a strong but previously self-standing business within Kantar. This merger has successfully produced one company with the resources to compete more effectively than either could separately.

Center Partners, acquired in 1999 as our entry into out-sourced call handling for technology and telecommunication companies, won major contracts during the year and is now the fastest-growing part of our business.

Millward Brown had an outstanding year in its two major units in the US and UK. In the US, the integration of IntelliQuest, acquired in 1999, was achieved successfully and going forward IntelliQuest will form the core of MB's technology research expertise. In the UK, the focus on branding knowledge based on the BrandDynamics system successfully repositioned the company higher up the client value chain.

Kantar Media Research continued to expand the geographic reach of its Target Group Index media-planning tool, which is now available in 30 countries. AGB, in which WPP holds a significant minority interest, won the UK Television Audience Measurement contract, a tremendous victory over the long-term incumbent.

BMRB, in the UK, was awarded prestigious contracts by the UK government for major social policy studies in areas such as health, citizenship and the criminal justice system.

Goldfarb Consultants strengthened its presence geographically, bringing on stream a West Coast office in the US, and functionally through gains in pharmaceutical and financial research in Canada.

Sadly, our business success was marred at a personal level by the unexpected and untimely death of Ramesh Thadani, the head of IMRB, our Indian company. Ramesh was a successful business leader, but an even finer man. As his legacy, he leaves behind a strong, intellectually vibrant organisation in IMRB.

2000 was an interesting year for internet research. Along with everyone else, we observed the dotcom bust, but in fact our internet revenues doubled as our traditional blue-chip clients turned to us for internet-based research, and we are forecasting a continuation of this trend.

This, I believe, is and will be the ongoing competitive strength of Kantar versus internet start-ups. Our operating companies are valued by our clients not as data collectors, but as trusted advisors to turn to as the nature of their industries and ours change. We will ensure that Kantar continues to provide the skills needed to meet these changing needs.

David Jenkins

Public relations & public affairs

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

Hill and Knowlton's revenues rose by more than 31% and operating costs by more than 29%. As a result, margins increased to almost 13%, ahead of previously established targets.

Revenues at Ogilvy Public Relations Worldwide (which was named both by *PR Week* and *The Holmes Group* as 'Agency of the Year') rose by almost 61% and operating costs by approximately 59%. For the fourth year in a row following the change in leadership, profitability improved significantly over the previous year.

In the final quarter of 2000, Burson-Marsteller's revenues rose by more than 8% and Cohn & Wolfe's by more than 31%. Robinson Lerer & Montgomery, which was acquired by Young & Rubicam Inc. in the first quarter of 2000, made a strong first time contribution to the Group.

Our public relations and public affairs businesses as a whole showed operating margins of more than 13%, in excess of the Group's objective for 2000 and in line with the best-performing publicly listed comparables. Operating management has developed new three year plans that indicate further significant improvement in operating margins.

Hill and Knowlton

In a record year for the firm, Hill and Knowlton reaffirmed its commitment to a tradition of quality client service, industry leadership, and breadth and depth of resources. Significant organic growth and targeted acquisitions combined to help H&K exceed its goals for the year. Accommodating client growth needs and market demand, worldwide additions included Gaia (Italy), SocketPR (US), The Rockey Company (US), H&K Berlin, Hiller Wüst (Munich), RPCA (Paris) and Vox Consulting (Argentina).

H&K continued to be the agency of choice particularly with organisations seeking global reach and expertise such as Motorola, Compaq, Ernst & Young and the International Olympic Committee. The firm's worldwide reputation in crisis and issues management was best summed up in Olympic newsletter *Around the Rings*, which named Hill and Knowlton as among the most influential groups within the Olympic movement.

Ford Motor Company stepped up its PR business throughout the system as well as expanded its work with H&K's exclusive television and movie product placement firm, Showcase International. Asia Pacific continued to dominate the M&A work in that region.

Indicative of its public affairs and energy specialisations, H&K Canada, augmenting WPP's privatisation expertise, developed a fully integrated government, media and community relations program on behalf of client British Energy assisting in the privatisation of the Bruce Nuclear facility of Ontario Hydro.

Hill and Knowlton's technology practice, led by Blanc & Otus Public Relations, represents industry leaders around the world, from communications giant BT, to internet expert Ariba, and on to digital entertainment pioneers TiVo and LivePlanet. Each has turned to H&K for powerful public relations services that change market behaviour or opinion, redefine existing markets or create new ones, or simply establish lasting leadership positions.

Similarly, as part of the wpp.com initiative to improve Group company

Howard Paster
Chairman and chief executive officer
Hill and Knowlton Worldwide

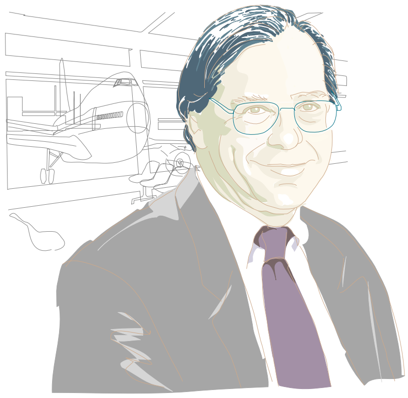
interactive communications capabilities, Hill and Knowlton formalised the global Netcoms practice, providing clients with cutting edge internet, extranet and intranet services and strategies. The practice has created online communications programs for clients such as the BT Global Challenge yacht race, the California olive industry, and Roche treatments for AIDS and Hepatitis C.

The year was marked by bellwether initiatives specifically engineered to enhance quality client service. Such offerings included the launch of the Medical Knowledge Group throughout Europe, Canada and the US, and the development of PRecision™, a toolbox that delivers against the age-old conundrum of measuring and evaluating PR, as well as targeting and benchmarking. A Group collaboration, developers included a working group of H&K, and WPP partners Millward Brown, Millward Brown Precis and MindShare's Advanced Techniques Group.

Benchmarking internal and external perceptions, the firm again participated in two major transnational studies: the Thomas L. Harris/Impulse Research Employee Satisfaction survey and the Corporate Reputation Watch survey conducted by Yankelovich and *Chief Executive Magazine*, targeting the chief executive officer to raise the visibility of corporate reputation among senior managers and boards of directors.

In recognition of its achievements, H&K scooped the *PR Week* Awards for Best Business Campaign 2000 for its work for Europe's leading B2B provider of 'e-construction' services, BuildOnline. As well, H&K Hong Kong's technology practice won 'Technology Campaign of the Year' for its work on launching internet currency – beenz – into the Greater China market.

Howard Paster



Bob Seltzer
Chairman and chief executive officer
Ogilvy Public Relations Worldwide

Ogilvy Public Relations Worldwide

2000 was a year of strong growth, award-winning programs and unprecedented change in the marketplace. During 2000, we:

- Were named 'Agency of the Year' by both *PR Week* and *The Holmes Group*.
- Grew organically by 35%.
- Tripled in size in three years, going from $55 million in 1997 to $169 million, and codified our position as one of the industry's fastest-growing firms.
- Expanded geographically to 51 offices by opening Ogilvy PR locations in Bucharest, Colombo, Düsseldorf, Frankfurt, Hyderabad, Istanbul and Sydney.
- As a result of our integration efforts and synergy, all three specialty units grew significantly faster as integrated units than they did as independents – Feinstein Kean Healthcare (acquired in November 1999) grew 48.6%, B|W|R (acquired in October 1999) grew 22.2% and Alexander Ogilvy (acquired in October 1998) grew 43.2%.
- Ranked third in size globally in the healthcare, consumer and technology arenas, according to the Council of PR Firms.
- Won nine *PR Week* Awards and six CIPRAs in 2000 (the most of any firm).

We continued to have one of the lowest client turnover rates in the industry and added key brand names to our roster, such as BP, Kodak, Tricon, Boehringer Ingelheim, Kimberly-Clark, Microsoft and Merrill Lynch.

Growth happened across each of our five practices, with the technology practice leading the way with a 44.2% growth rate in 2000.

In a marketplace bolstered by opportunity, and the talent to fulfill those opportunities difficult to find, we launched a critical initiative in 2000 to *Attract, Grow and Keep the Best People* (affectionately known as AGK), which helped us reduce turnover by 30% and attract 400 new staff members. AGK components included the introduction of an employee work-visit program; professional development fund;

O-village (our newly launched company-wide intranet); internal job posting database and enhanced training and knowledge sharing through Client Service College, Tech Boot Camp, our Core Curriculum and mandatory Management Skills Training. Our anniversary celebration on 3 September 2000 also helped us build a deeper appreciation of our Ogilvy heritage.

Our efforts to provide full global capabilities to clients progressed significantly, aided in large part by O-village. Its state-of-the-art search function allows any employee anywhere in the network to access knowledge and resources within seconds.

Ogilvy PR is well positioned to meet the challenges of 2001, which will be driven by an economy very different to that of the past several years. Nonetheless, we will continue to grow by expanding geographically, positioning ourselves as leaders in the fastest-growing industries, expanding client relationships, broadening our offerings, fostering employee development and enhancing our approach to client service.

We enter 2001 ready to face the challenges and opportunities clearly ahead of us.

Bob Seltzer

John Zweig
Chief executive officer
Branding & identity, healthcare and specialist communications

Branding & identity, healthcare and specialist communications

Branding and identity, healthcare and specialist communications revenues rose by more than 27%. Although gross profit rose even more strongly, operating costs rose faster, resulting in overall operating margins declining by 0.2 margin points, chiefly due to margin erosion at our healthcare operations. Several of our companies in this sector performed particularly well including in promotion and direct marketing – Einson Freeman, OgilvyOne, A Eicoff & Company; in identity and branding – Addison Corporate Marketing, Brouillard, Banner McBride, BPRI, Coley Porter Bell, Lambie-Nairn, Scott Stern and Enterprise IG Group; in healthcare – The Shire Hall Group; and in other specialist marketing resources – The Henley Centre, pFour Consultancy, Management Ventures, Metro, The Farm, The Geppetto Group, JWT Specialized Communications and Perspectives Red Cell.

In 2001 this communications services sector will be split into three parts for strategic (but not share owner reporting) purposes – first, branding and identity, secondly, healthcare and finally specialist communications.

Since its formation and before it was in vogue, WPP recognised the potential of marketing specialists to play a highly valued role and to produce a concentrated impact on our clients' businesses. Over recent years, our strategy has evolved beyond the simple acquisition of new specialist capabilities, which for the most part still characterises the approach of our competitors. With ventures like CommonHealth, first, Enterprise IG more recently, and now the Brand Union in 2001, we have demonstrated how co-operative ventures can create scale and industry leadership accessible to even the smallest of our specialist units. These 'focused clusters' of complementary companies are proving more attractive to clients, creating a more sustainable competitive advantage, and proving the membership benefits of WPP.

Some of the specific accomplishments in our two most sizeable sectors, as well as a few key events among our other specialist companies, are summarised below.

The Brand Union

The goal of the Brand Union is to build a group of leading consulting brands capable of meeting all the brand, identity and design needs of the world's most demanding brand owners.

It comprises Enterprise IG; the newly formed 'brand experience' offering Enterprise XP, which brings together in a single network Banner McBride, Clever Media, Eurosem and The Clinic. Also within The Brand Union are some of the strongest independent brands in our industry – Addison Corporate Marketing, BDG McColl, BPRI, Coley Porter Bell, Dovetail, The Henley Centre, Lambie-Nairn, Oakley Young, WalkerGroup and newly acquired Warwicks.

Some highlights:

- Enterprise IG grew from eight offices to 17 worldwide and set in motion plans to open several new offices in 2001.
- Client assignments include the merger of Qwest and US West, programs for Ford Motor Company, Guardian Media Group, Holderbank, Merck's Vaccine Division, Merrill Lynch Investment Managers and Westvaco; many of these client assignments are serviced through Group partnerships with our worldwide advertising networks, J. Walter Thompson and Ogilvy & Mather.
- Addison continued to build its reputation as WPP's corporate marketing arm through stakeholder engagement programs for Novartis and Syngenta together with the naming and rebranding of Caradon to Novar.
- Tutssels, the award-winning London-based consumer brand design consultancy, joined the Enterprise IG network late in 2000.
- Banner McBride launched its *Brand Engagement* offering which led to programs with Gala Bingo, Getronics and One 2 One.
- BDG McColl's environmental design projects included work for American Express, Argos and KPMG.
- Coley Porter Bell more than doubled its profitability, and many of the business wins came from non-packaging projects including Ford and Jersey Tourism.
- Lambie-Nairn continued to dominate the broadcast design sector and moved into telecommunications, securing clients like ntl and eircom.

Among the awards won were gold in Creativity 30 (Enterprise IG), silvers in the D&AD and Promax/BDG (Lambie-Nairn for BBC identity and design work); and gold and a silver at the New York Festivals (Clever Media for Getronics video).

CommonHealth

In a year dominated by consolidation among many of the global pharmaceutical companies, the world's leading healthcare communications network, CommonHealth, further expanded its range of capabilities and reach into the marketplace.

CommonHealth's core platforms span the spectrum from professional to consumer advertising, relationship marketing, market research and medical education. Beyond that, the network offers clients specialised expertise in brand identity and design, experiential marketing and ethnic marketing through joint ventures with sister WPP companies. In 2000 CommonHealth announced four such partnerships and launched two new operating companies – noesis, a full service medical advertising agency; and an agency uniquely focused on patient-physician communications, MBS/Vox, that was created as an alternative to the reconstructed reality of focus groups. A US joint venture was also formed with Shire Hall Group, a leading UK-based healthcare public relations agency within WPP.

CommonHealth's philosophy of nurturing discipline-specific companies served the organisation well in 2000 as newly merged pharma companies increasingly sought to consolidate accounts with a single resource. We also took advantage of the outsourced-marketing trend, forming an alliance with a leading contract sales organisation to take on the marketing of brands that otherwise would not be significantly promoted.

In 2000, CommonHealth companies continued to build blockbuster brands like Procrit (Ortho Biotech division of J&J), Avandia (GlaxoSmithKline) and Schering-Plough with the introduction of its new antihistamine, Clarinex. The organisation picked up major new business assignments – Becton Dickinson, Knoll Pharmaceutical, Ortho Dermatological, Ortho-McNeil Pharmaceutical, Inc., Novartis, Parkstone Medical Information Systems, Inc., Ross Laboratories, Sanofi-Synthelabo and Schering-Plough – and saw a major introduction, Bristol-Myers Squibb's Glucovance.

Technology was a focal point as WPP made minority investments in Medical Broadcasting Company (MBC) and CommonHealth formed strategic alliances with Pedagogue Solutions and SoftWatch.

Other specialist communications

- WPP acquired Spafax, the leading inflight entertainment company and creators of award-winning programming on behalf of such clients as British Airways, Air Canada, Singapore Airlines, Delta, China Airlines, among others.
- The Première Group, a sports and entertainment marketing resource, also joined the WPP group of companies.
- A 49% stake was acquired in UniWorld, which was named 'Agency of the Year' by *Black Enterprise Magazine* for being the largest multi-cultural agency in the US. New clients included Motorola, Home Depot, and the NAACP Voter Registration Campaign which helped achieve the greatest African American voter increase in US history.
- Mendoza Dillon was awarded the 'Partners in Progress' award from Sears, a distinction achieved in three of the last four years.
- RTC was recognised by *Advertising Age* as the largest marketing communications agency in Washington DC.
- pFour Consultancy had a remarkable growth year, with fees having doubled in size since its acquisition by WPP two years ago.

John Zweig

wpp.com

To date wpp.com, WPP's internal new media parent company, has concentrated on strengthening its existing operations, acquiring new activities in areas which we think are critically important, investing in start-up companies with whom we wish to partner and spreading knowledge of technology developments throughout the Group. We have continued to use wpp.com as a way of strengthening the digital capabilities of our operating companies.

Overall the effectiveness of this strategy has strengthened for three reasons. First, staff turnover rates within our interactive business fell significantly during the second half of the year with people whom we had previously lost returning to the Group. Secondly, valuations have fallen, making smaller interactive acquisitions more attractive. Finally, our reliance on traditional companies as our main source of internet and new media revenues has enabled us to continue growing revenues and profits beyond expectations.

The merger with Young & Rubicam Inc. has brought with it strong interactive capabilities, notably at The Digital Edge, Burson-Marsteller, Landor and Impiric. Notable features during 2000 included the growth of OgilvyInteractive, organically and by acquisition, into the leading global web development agency and its recognition by *Advertising Age International* as Interactive Agency of the Year; the development of a strong interactive capability within Impiric; the integration of IntelliQuest and MB Interactive; the establishment of Lightspeed as Kantar's internet panel with more than 500,000 panellists by year end; the acquisition of a minority stake in Medical Broadcasting Company (the leader in web development strategy and implementation for pharmaceutical companies); the acquisition of a number of technology firms (including advertising and public relations specialist Imagio and e-commerce firm Imaginet) to strengthen J. Walter Thompson Company; the establishment of Y&R 2.1 and the flotations of Concept! and Syzygy on the NeuerMarkt in Germany.

Our pure internet revenues (web-based work) for 2000 were ahead of budget, over 100% up on 1999 and reached $293 million. These figures exclude our share of revenues generated by minority and associate companies such as Syzygy, Concept! and Inferentia. Our budgets for 2001, using the same narrowly based definition of interactive work, show growth rates in excess of 25%, fuelled by the continuing growth in the importance which traditional clients attach to developing new channels and their desire to integrate those channels.

MindShare Digital, digital@jwt, Kantar, Blanc & Otus, OgilvyInteractive, The Digital Edge and Impiric continue to budget strong increases in revenues for 2001 – despite a softening in market conditions and longer sales cycles.

One or two of our companies in public relations which have benefited significantly from start-up dotcoms expenditure are budgeting lower revenue growth. Our interactive operations, whose margins are similar or ahead of those of the Group as a whole, are likely to be strengthened further as a result of not having to deal with high turnover rates and the associated direct and indirect costs.

Major clients of wpp.com include Accenture, American Express, Ameritrade, Ariba, AT&T, Boots, Citibank, Covisint, the Diamond Trading Company, DoubleClick, easyEverything, El Sitio!, Ericsson, FedEx, Ford Motor Company, IBM, Instinet, iPlanet, Kimberly-Clark, Merrill Lynch, MindSpring, Motorola, Nestlé, NextCard, Nike, ntl, Qwest, SAP, Sears, Siemens, Sony, Sun Microsystems, TiVo, Unilever and Ziff Davis.

Despite the turmoil in the markets, technology is playing a growing role in the way we develop our business. For example, research can be implemented more cost effectively and offer clients valuable results more quickly. In addition, it can streamline work processes in our advertising and media investment management businesses and help us tap into global capabilities in a more structured way.

Finally it extends the effectiveness of our relationship marketing capabilities. We continue to pursue aggressively ways of incorporating technology into the operating processes of all of our businesses.

Our interactive equity investments have been made directly and indirectly through venture funds. The aim of these indirect investments has been to keep abreast of developments and identify potential client relationships, thus enhancing our core capabilities.

Historically, the prime venture funds through which we have made indirect investments have been Allegis Capital LLC, previously known as Media Technology Ventures, and Wit Capital's Dawntreader II fund. The value of our investments in these funds has obviously declined over the past few months but is still ahead of its original cost.

We have only made two direct investments in the past few months as we are concentrating on consolidating the investments which Young & Rubicam Inc. had made and building closer relationships between our operating companies and our existing minority investments.

We continue to see interesting opportunities for investments and outright acquisitions, made easier by the fall in valuations and the desire for start-ups to partner with traditional companies such as ourselves.

Group financial performance

Turnover was up 49% to £13.9 billion (reflecting in part the growth of media investment management), revenues up over 37% to £2.981 billion and gross profit up over 47% to £2.736 billion. On a constant currency basis, revenues were up almost 33% and gross profit up almost 43%.

Operating profit (excluding income from associates) rose by over 43% to £378.0 million from £263.5 million and by over 40% in constant currencies.

Profit before interest and tax was up 43% to £416.0 million from £290.8 million and up almost 40% in constant currencies.

The Group's tax rate on profits was 30.0%, the same as in the previous year.

Diluted earnings per share rose over 26% to 28.4p from 22.5p. In constant currency earnings per share rose by 23%.

The Board recommends an increase of 21.4% in the final dividend to 2.55p per share, which will be paid in the form of an ordinary dividend, making a total of 3.75p per share for 2000, a 21% increase over 1999.

Operating margins

Reported operating margins (including income from associates) rose by 0.6 margin points to 14.0% in line with objectives and by 0.7 margin points on a constant currency basis.

The margin gap between the very best-performing competition and ourselves continues to narrow.

Operating margins before short and long-term incentive payments (totalling £118.0 million or over 22% of operating profit before bonus and taxes) rose to 17.9% from 16.7%. Reported operating costs including direct costs rose by more than 36% and by 32% in constant currency.

The Group's staff cost to gross margin ratio excluding incentives fell to 54.8% from 55.0%.

Variable staff costs as a proportion of total staff costs have increased over recent years to 12.1% and as a proportion of revenues to 6.6%. This has resulted in increased flexibility in the cost structure.

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

Like-for-like performance

On a like-for-like basis (including Young & Rubicam Inc. for the final quarter of 2000), revenues rose by almost 15% and gross profit was up almost 16% on 1999. Total operating and direct costs were up over 14% on the previous year. Staff costs excluding incentives rose by over 15% and salaries by over 14%.

On a constant currency basis, pre-tax profits were up over 40% reflecting the weakening of sterling against the dollar, counterbalanced to some extent by strength against the euro. If sterling had stayed at the same average levels as 1999, pre-tax profits would have been £360.0 million.

Headcount

Our staff numbers averaged 36,157 against 27,711 in 1999, up 31%. On a like-for-like basis, average headcount was up 2,767 to 36,157 from 33,390, an increase of 8%. At the end of 2000 staff numbers were 51,195 compared with 29,168 in 1999.

Manufacturing

Revenues and operating profit were up slightly at the Group's manufacturing division.

Parent company initiatives

Increasingly, WPP is concentrating on its mission of the 'management of the imagination', and ensuring it is a big company with the heart and mind of a small one. To aid the achievement of this objective and to develop the benefits of membership of the Group for both clients and our people, the parent company continues to develop its activities in the areas of human resources, property, procurement, information technology and practice development.

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

Management stock ownership

As part of the Group's 100, 300 and High Potential club programs of management stock ownership, stock options have been granted each year since 1995 to those people with the most significant responsibility for the success of our businesses. Beginning in 2001, these programs will be known as WPP Leaders, WPP Partners and the WPP High Potential Group and will be expanded in response to the significant growth of the Group. In addition, 50% of all awards to all participants in operating company long-term incentive plans will continue to be paid in WPP restricted stock.

In 1997, WPP launched the Worldwide Ownership Plan to give all our people an opportunity to share in its success through stock ownership. Options have been granted annually under this program to approximately 18,000 people worldwide, and in 2001 the program has been extended to all eligible Young & Rubicam Inc. people.

Including outstanding options, interests in WPP restricted stock, stock already owned and holdings of the Employee Stock Ownership Plan, people working in the Group currently own, or have interests in, in excess of 71 million ordinary WPP shares representing over 6% of the Company, or approximately $750 million.

However, your Company is still at a significant competitive disadvantage relative to major competitors in the US, in relation to the availability of stock to promote equity ownership. Omnicom and IPG, for example, have historically issued 15-20% of their total share capital in the form of stock options or restricted stock. Beginning in 2001, your Company will be increasing the level of stock option grants to meet this competitive standard but will not exceed a total dilution level of 13% over any 10-year period through 2006, consistent with our commitment to UK institutional investors in June 1999.

The Leadership Equity Acquisition Plan (LEAP) was approved by share owners on 2 September 1999. Twenty-two executives of the Group have been invited to participate in the plan. These participants will acquire or have acquired 3.5 million WPP ordinary shares, currently worth over $40 million, and have made a commitment to retain them until September 2004. One-third of these share purchases has been or will be made in cash or earned bonuses, the other two-thirds being in committed shares.

Under the terms of LEAP, the participants may earn matching shares over a five-year performance period, based on the Group's relative total share owner return as compared with 14 other major listed companies in our industry.

Acquisitions and start-ups

In addition to the completion of the $4.7 billion acquisition of Young & Rubicam Inc., in 2000 the Group increased its equity interests at a combined initial cost of £247 million in advertising and media investment management agencies in Belgium, China, France, Israel, Italy, the Middle East, The Netherlands, Pakistan, Portugal, Puerto Rico, Spain and Taiwan; in information and consultancy in Australia, Denmark, Singapore, Spain and Sweden; in public relations and public affairs in Italy, Poland, Turkey and the US; and in branding and identity, healthcare and specialist communications in Australia, Canada, Denmark, Ireland, Mexico, The Netherlands, Portugal, Spain, Singapore, Switzerland and the US.

Particularly interesting functional acquisitions and investments have been made in augmenting the Group's loyalty marketing capabilities (The Lacek Group), strengthening our creative capabilities (SCPF), in technology (Socket Public Relations, Imagio and Imaginet), in interactive (INTERFAZ 401 and Absolut) and in new areas, for example, inflight media (Spafax).

Treasury activities

Treasury activity is managed centrally, from the parent company's London, New York and Hong Kong offices, and is principally concerned with the monitoring of working capital, managing external and internal funding requirements and the monitoring and management of financial market risks, in particular interest rate and foreign exchange exposures.

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

The Group's interest rate management policy recognises that fixing rates on all its debt eliminates the possibility of benefiting from rate reductions and similarly, having all its debt at floating rates unduly exposes the Group to increases in rates.

The Group therefore aims to limit the impact from increases in rates while seeking to ensure that it benefits from rate reductions by regularly reviewing its exposure profile and deciding upon the periods for fixing rates in the light of financial market expectations. Its principal borrowing currencies are US dollars and pounds sterling. Borrowings in these two currencies, including amounts drawn under the working capital facility, represented 93% of the Group's gross indebtedness at 31 December 2000 (at US$1,154 million and £178 million respectively) and 94% of the Group's average gross debt during the course of 2000 (at US$948 million and £194 million). 81% of the year-end US$ debt is at fixed rates averaging 5.37% for an average period of 42 months. The sterling debt is all at floating rates. Other than fixed rate debt, the Group's other fixed rates are achieved through interest rate swaps with the Group's bankers.

The Group also uses forward rate agreements and interest rate caps to manage exposure to interest rate changes. At 31 December 2000 the Group had one forward rate agreement in place capping short-term US$ interest rates at an average rate of 5.65% on $25 million of borrowings.

These interest rate derivatives are used only to hedge exposures to interest rate movements arising from the Group's borrowing and surplus cash balances arising from its commercial activities and are not traded independently. Payments made under these instruments are accounted for on an accruals basis. An analysis of the debt and fixed rate maturities is shown in note 8.

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

Targets for average net debt are set on an annual basis, and to assist in meeting this, working capital targets are set for all the Group's major operations. Over the last three years, improvements in working capital have made a significant contribution to Group liquidity.

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

Significant cross-border trading exposures are hedged by the use of forward foreign exchange contracts. There were no such material contracts in place at 31 December 2000. No speculative foreign exchange trading is undertaken.

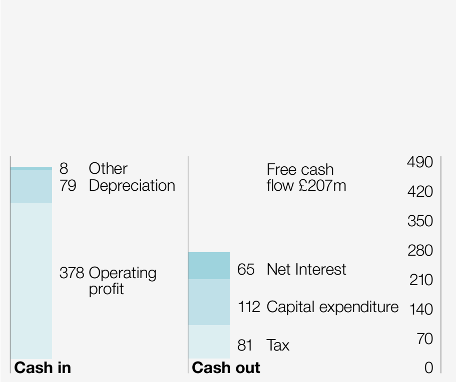
Cash flow

As at 31 December 2000, the Group had net debt of £25 million compared with net cash of £92 million at 31 December 1999, following cash expenditure of £247 million on acquisitions, £94 million on share repurchases and the inclusion of long-term debt of £195 million from Young & Rubicam Inc.

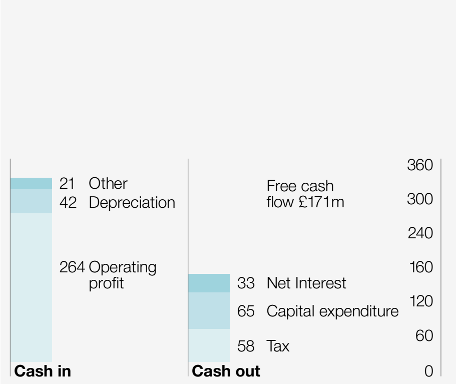
Net debt averaged £423 million in 2000, up £217 million against £206 million in 1999. The average debt figures for 2000 include the impact of the Young & Rubicam Inc. long-term convertible bond of £195 million for the final quarter. These net debt figures compare with a current equity market capitalisation of approximately £9.0 billion giving a total enterprise value of approximately £9.4 billion.

Cash flow continued to improve as a result of improved profitability and management of working capital. In 2000, operating profit was £378 million, capital expenditure £112 million, depreciation and amortisation of £79 million, tax paid £81 million, interest and similar charges paid

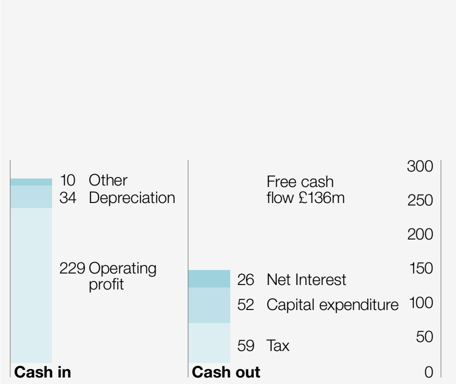
2000 Cash flow £m



1999 Cash flow £m



1998 Cash flow £m



£57 million and other net cash inflows of £84 million. Free cash flow available for debt repayment, acquisitions, share buybacks and dividends was therefore £291 million. This free cash flow was more than absorbed by acquisition payments and investments of £247 million, share repurchases and cancellations of £94 million and dividends of £26 million.

Your Board continues to examine ways of deploying its substantial cash flow of over £500 million per annum to enhance share owner value. As necessary capital expenditure normally approximates to 1-1.5 times the depreciation charge, the Company has concentrated on examining possible acquisitions or returning excess capital to share owners in the form of dividends or share buy-backs.

As noted earlier, your Board has decided to increase the final dividend by 21% to 2.55p per share, taking the full year dividend to 3.75p per share which is over seven times covered. In addition, as current opportunities for cash acquisitions at sensible prices are limited particularly in the US, the Company will continue to commit £150-200 million for share buy-backs in the open market, when market conditions are appropriate. Such annual rolling share repurchases would represent approximately 1-2% of the Company's share capital which seems to have a more significant impact in improving share owner value. If sufficient small to medium sized cash acquisition opportunities are available and there are attractive opportunities for share repurchases, your Board is prepared to increase net debt further to the range of £400-450 million in comparison with the historical target range of £200-250 million. This level of debt would still represent only 4-5% of the Company's market value.

In the first three months of 2001, the period for which information is available prior to printing, constant currency net debt averaged £470 million versus £230 million for the same period last year (2000: £239 million at 2001 exchange rates). This includes the £653 million spent on capital expenditure, acquisitions, share purchases and dividends in the previous 12 months. The average debt figures for 2001 include the impact of the Young & Rubicam Inc. long-term convertible bond of £195 million. Free cash flow over the same period was £417 million.

Net balance sheet assets

No hedging is undertaken in relation to the accounting translation of overseas balance sheets. In 2000 this resulted in a decrease of £133 million (1999: decrease of £31 million) in the sterling value of share owners' funds due to movements in exchange rates. In 2000, net assets of £3,434 million compared with £355 million (restated) in 1999.

2001 outlook

As usual, our budgets for 2001 have been prepared on a conservative basis largely excluding new business particularly in advertising and media investment management. They predict like-for-like revenue increases of over 7% in comparison to 2000 pro forma numbers, with advertising and media investment management revenue growth of 3% and marketing services growth of over 10%. For the first time in five years it appears that our conservative approach to budgeting may prove correct – unlike previous years when actual revenue growth exceeded budgeted revenue growth by significant amounts.

In the first three months of 2001, combined WPP and Y&R constant currency revenues were up over 9% and on a like-for-like basis, excluding acquisitions and currency fluctations, revenues rose 6%.

In these circumstances there is no reason to believe that the Group cannot achieve the objective set in 2000 of further improving margins by another 1 margin point to 15.0% in 2001 or a further 0.5 of a margin point in 2002.

Your Board does not believe that there is any functional, geographic, account concentration or structural reason that should prevent the Group achieving operating margins of 15.5% by 2002. After all, the two best listed performers in the industry are at 16-18% and that is where we would want to be.

Neither is there any reason why operating margins could not be improved beyond this level by continued focus on revenue growth and careful husbandry of costs. As a result of this confidence, your Board is setting a new operating margin plan, its sixth since 1991, to achieve further growth in operating margins beyond 2002. The objective will be to achieve 20% margins over a period of time.

2001 has been ushered in with a multitude of gloomy prognostications. Some may prove to be justified. But early indications are that the worldwide growth of advertising expenditure will be around 5-6%, with marketing services growing at 6-8% – neither significantly behind 2000.

As long as financial markets remain stable and governments do not stimulate inflation, the worldwide economic environment should be good for growth in the communications services sector as a whole. The global dominance of the American economy; over-capacity in production; the shortage of human capital; the growing impact of new technologies; and the critical importance of internal communications: these are all encouraging factors for our industry. Between them, they have already stimulated growth in the ratio of advertising and marketing services as a proportion of gross national product to new highs. As long, again, as inflationary pressures are not allowed to build, these trends should continue into 2002.

We believe that 2001, WPP's sixteenth year, should be another good one.

Paul Richardson
Group finance director